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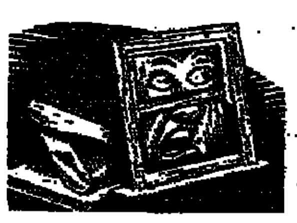

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Separate section


# FINANCIAL TIMES

Europe's Business Newspaper — TUESDAY OCTOBER 4 1994 — D8523A


## US lifts ban on official contact with Sinn Féin

Washington yesterday lifted its ban on official contacts with Sinn Féin, the political wing of the Irish Republican Army, and invited visiting leader Gerry Adams to meet US officials. The news was broken to the Sinn Féin president in a telephone call from US vice-president Al Gore. Washington's move puts additional pressure on London to clear the way for preliminary talks with Sinn Féin, but Downing Street gave a low key response to the US decision yesterday. London has promised to start discussing how to admit Sinn Féin to political talks on Northern Ireland's future within three months of a permanent end to IRA violence. Page 8

**Markets take fright:** Financial markets in Europe and the US fell again amid pessimism about the direction of US and UK interest rates. In London, the FT-SE 100 index fell 42.8 points to 2,963.5. Page 18; World stocks, Page 42; London Stock Exchange, Page 31

**Middle East neighbours closer to peace**

Israeli foreign minister Shimon Peres (right) and Jordan's Crown Prince Hassan took another step on the path to peace when they met at the White House with President Bill Clinton and announced several economic and commercial projects. Their meeting came as Israeli premier Yitzhak Rabin told his country's parliament that he hoped to sign a peace treaty with Jordan before the end of the year. Page 6

**Italian agriculture chief arrested:** Filippo Galli, head of the state body that controls European agriculture aid in Italy, was arrested on charges of abusing his office. The move, part of a probe into agricultural fraud, follows the arrest of Mr Galli's deputy. Page 3

**J. Sainsbury**, Britain's biggest retail grocery, is taking a $325m (£205m) stake in Washington-based supermarket chain Giant Food of the US. Page 19; Lex, Page 18

**Brazilians go to polls:** Fernando Henrique Cardoso, a champion of free markets and social reform, was poised to win the presidency of Brazil as 95m voters started casting their ballots yesterday. Page 4

**Londoners rush to buy Diana book:** London bookstores reported huge demand for *Princess in Love*, the controversial book which claims to reveal details of a love affair between the Princess of Wales and former soldier James Hewitt. Observer, Page 17

**Japan Air Lines** is poised to disclose billions of yen of long-suspected foreign exchange losses. JAL refused to confirm reports that its unrealised loss was Y45bn ($450m). Page 19

**Deutsche Bank** hopes to strengthen co-operation with Morgan Grenfell, its merchant banking subsidiary. The move could ultimately lead to the integration of their investment banking operations. Page 20

**Mexican assassination move:** Mexico's Congress said it would lift immunity from Manuel Muñoz Rocha, a member implicated by the attorney-general's office in last week's assassination of José Francisco Ruiz Massieu, senior official in the governing PRI party. Page 4

**Tourists killed as bridge collapses:** At least 38 people died when a suspension bridge collapsed at a beauty spot in Guangdong province, south-east China, pitching scores of tourists into a lake.

**Row over French scarf ban:** French police blocked the entrance to a school in Lille to keep out about 30 Moslem girls who were trying to defy a government ban on wearing Islamic scarves in public schools.

**Farmers' protest:** Welsh farmers warned of a disastrous drop in livestock prices because of a ferry companies' ban on live animal exports and urged the government to intervene. Yesterday calf prices at Wales's biggest livestock market fell by up to £70 ($111) to just £10 or £15 because of the ban.

| ■ STOCK MARKET INDICES | | |
|---|---|---|
| FT-SE 100: | 2963.5 | (-42.8) |
| Yield | 4.24 | |
| FT-SE Eurotrack 100 | 1309.82 | (-8.11) |
| FT-SE-A All-Share | 1490.83 | (-1.3%) |
| Nikkei | 19650.03 | (+36.22) |
| New York: lunchtime | | |
| Dow Jones Ind Ave | 3839.15 | (-4.04) |
| S&P Composite | 460.78 | (-1.93) |
| ■ US LUNCHTIME RATES | | |
| Federal Funds | 4¾% | |
| 3-mo Treas Bills: Yld | 4.83% | |
| Long Bond | 96½ | |
| Yield | 7.858% | |
| ■ LONDON MONEY | | |
| 3-mo Interbank | 6 | (5⅞%) |
| Liffe long gilt future: | Dec 98⅜ | (Dec 99⅜) |
| ■ NORTH SEA OIL (Argus) | | |
| Brent 15-day (Nov) | $17.075 | (16.955) |
| ■ Gold | | |
| New York Comex (Dec) | $398.2 | (397.6) |
| London | $394.9 | (393.8) |

| ■ STERLING | | |
|---|---|---|
| New York lunchtime: | | |
| $ | 1.5775 | |
| London: | | |
| $ | 1.578 | (1.577) |
| DM | 2.4574 | (2.4468) |
| FFr | 8.3825 | (8.3491) |
| SFr | 2.043 | (2.0309) |
| Y | 157.516 | (156.076) |
| £ Index | 80.2 | (79.9) |
| ■ DOLLAR | | |
| New York lunchtime: | | |
| DM | 1.555 | |
| FFr | 5.3010 | |
| SFr | 1.2905 | |
| Y | 99.495 | |
| London: | | |
| DM | 1.5573 | (1.5515) |
| FFr | 5.3121 | (5.2943) |
| SFr | 1.2947 | (1.2878) |
| Y | 99.82 | (98.97) |
| $ Index | 62.4 | (62.1) |
| Tokyo close Y 99.58 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Austria | Sch30 | Greece | Dr350 | Malta | Lm0.60 | Qatar | QR13.00 | | |
| Bahrain | Din1.250 | Hong Kong | HK$18 | Morocco | MDh15 | S.Arabia | SR11 | | |
| Belgium | BFr65 | Hungary | Ft165 | | | Singapore | S$4.30 | | |
| Bulgaria | Lw40.00 | Iceland | IKr215 | Neth | Fl 4.25 | Slovak Rp | KSL50 | | |
| Cyprus | CCL10 | India | Rs60 | Nigeria | Naira60 | S. Africa | R12.00 | | |
| Czech Rp | CZK50 | Israel | Shk9.90 | Norway | NKr17.00 | Spain | Pta225 | | |
| Denmark | DKr16 | Italy | L3000 | Oman | OR1.50 | Sweden | SKr16 | | |
| Egypt | E£5.00 | Japan | Y500 | Pakistan | Rs40 | Switz | SFr3.30 | | |
| Estonia | EKr 20 | Jordan | JD1.50 | Philippines | Peso50 | Syria | S£50.00 | | |
| Finland | FM14 | Kuwait | Fils.625 | Poland | Zl38,000 | Tunisia | Din1.500 | | |
| France | FFr8.50 | Lebanon | US$1.50 | Portugal (mainland) | Esc225 | Turkey | L30000 | | |
| Germany | DM3.20 | Lux | LFr65 | | | UAE | Dh12.00 | | |

# Estonia ferry's bow doors were torn off in storm

By Christopher Brown-Humes in Stockholm

The outer bow door of the Baltic ferry Estonia was ripped off in heavy storms, allowing water to surge in and capsize the vessel in minutes, investigators said last night.

The three-nation accident team said video footage of the stricken vessel, lying in 80 metres of water, showed a 1 metre gap along the top edge of the normally water-tight bow ramp. The opening had allowed water to rush into the cavernous car deck, rapidly destabilising the ship and causing it to sink.

More than 900 lives were lost when the Estonia went down last Wednesday in stormy seas off Finland. The vessel had been sailing from the Estonian capital Tallinn to Stockholm.

Mr Raimo Tiilikainen, head of the rescue operation, acknowledged yesterday that there had been a 30-minute delay before news of the Estonia's distress was passed from Finnish to Swedish rescue authorities. He promised a separate inquiry into the delay.

Accident commission members, including representatives from Finland, Sweden and Estonia, highlighted the failure of a bow door locking device. They said they had seen video footage of broken hinges but had not been able to locate the visor-style outer bow door itself.

"The water inflow through the partly dislodged forward ramp has been of sufficient magnitude to result in a lack of stability and the capsizing of the ferry. The water-tight bow ramp behind the visor is still in place although there is a 1m gap along the top edge," the investigators said.

The findings confirm eye-witness testimony and expert opinion that only an event as dramatic as the tearing off of the bow door could have caused the Estonia to capsize so quickly.

Finland's transport minister, Mr Ole Norrback, said yesterday he would consider banning the use of bow doors on ferries.

In a pre-emptive move, Nordström & Thulin, the Swedish joint owner of the Estonia, said it would permanently seal the bow doors of the Vironia, a replacement ferry which is due to start sailing between Stockholm and Tallinn later this month. The company said all loading and unloading would take place through the stern in an arrangement which it claimed would "totally remove possible safety risks" at the front of the ship.

Meanwhile, Swedish inspectors yesterday stopped a ferry sailing from Sweden to Denmark after discovering serious faults in the bow section. The Lion Prince, operated by Lion Ferry, a Stena Line subsidiary, was taken out of service before it sailed from Varberg, south of Gothenburg, to Grenaa on the Jutland peninsula.

Mr Eric Wedin, an inspector with Sweden's National Maritime Board, said cracks were found in the bow ramp and the bow door.

# EU banks faulted on cross-border transactions

## Deals cost more and take longer than a year ago, study shows

By Emma Tucker in Brussels

British banks charge the most for transferring money across European borders, but complete the payments faster than any of their EU counterparts, a survey from the European Commission disclosed yesterday.

The survey also shows that it costs more and takes longer to transfer money between member states in the EU than it did a year ago. The performance of EU banks falls well short of voluntary targets on the expense and speed of cross-border payments set by the Commission 10 months ago.

The research is likely to lead to legislation from the Commission. Such a move would cheer consumer groups and small businesses that for years have condemned bank service quality.

According to the report, Europe's businesses and consumers pay an average Ecu25.4 ($31.50) per Ecu100 cross-border payment, Ecu2 more than they paid a year ago. The average total time for a transaction is almost five working days, with averages in the member states ranging from three to eight working days.

UK banks charge the most for sending a payment, followed by France and Portugal. Charges are lowest in the Netherlands, Spain and Luxembourg. Banks in Greece charge the most for exchanging foreign currency, and the UK and Belgium the second-most. Overall, costs are highest in France, the UK and Greece, and lowest in Italy, the Netherlands and Luxembourg.

The survey targeted 352 bank branches, carrying out 1,000 urgent money transfers and more than 100 non-urgent transfers. On average, it cost less to send a non-urgent transfer, and those were also carried out more quickly.

Banks in Portugal, Ireland and Italy were the slowest to send, while banks in Spain, Luxembourg and again Portugal, the slowest to receive. Service was most efficient in the UK.

The banks were ordered to charge the sender all the costs for the cross-border payments so that the beneficiary would receive the full amount. Even so, charging at both ends occurred in 36 per cent of the urgent transfers.

The report also highlighted the banks' poor record on providing information on costs.

Mr Raniero Vanni D'Archirafi, commissioner responsible for financial services, said: "The study results need urgent assessment by the Commission so that the necessary follow-up measures can be implemented."

Prayerful pose: Gatt chief Peter Sutherland at a news conference at which he expressed optimism that a number of global trade accords would be approved. IMF/World Bank reports, Page 5 and Page 19 AP

# S.G. Warburg warns of sharp fall in profits

By Norma Cohen and Nicholas Denton

S.G. Warburg, the UK investment bank, yesterday warned that profits for the six months ended September 30 would be less than half those of the same period of 1993 because of sharply lower trading profits.

The group forecast income of £55m ($86.9m) to £65m against a record £148.8m for the corresponding period a year ago. Mercury Asset Management, in which Warburg has a 75 per cent stake, said its profits would hold up. Income from the investment banking side of the business appears to have collapsed.

Analysts downgraded their forecasts for Warburg's results for the full financial year to a range of £165m to £180m, compared with the £297m recorded for March 1993 to March 1994. Warburg's share price fell sharply by 101p to close at 569p.

The decline was mirrored in price falls at other leading City of London firms. Smith New Court, the leading independent market-maker – regarded as highly exposed to potential trading losses – saw its shares price drop 40p to 334p yesterday.

Shares in other leading UK firms experienced more modest slides. Schroders, the merchant bank, saw shares drop by 43p to 1335pand shares in Kleinwort Benson, the second-largest integrated UK investment bank, fell 11p to 440p.

Warburg's profits warning comes after a round of trading losses and redundancies at US investment banks such as Salomon Brothers, which have seen market conditions deteriorate from the first quarter.

Yesterday Lord Cairns, Warburg's chief executive, stopped short of committing the investment bank to a significant cost-cutting effort although he said a review was under way.

"Clearly we have to look very hard at our cost base and find ways of cutting if we can do so without eating into muscle," he said.

In the year ended March 31,


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staff costs rose 40 per cent over the previous year, much of that in performance-related bonuses. Warburg's average staff expenses were the highest in the quoted merchant banking sector last year at £95,000 per head, according to estimates by Barclays de Zoete Wedd Research.

Lord Cairns blamed the poor performance on "thin, illiquid and quite volatile markets" in equities, bonds and derivatives. Most trading activities in the UK and in the US were affected, as were some in Europe. Fee and commission income may also prove slightly lower than last year, after the disappointments of the Eurotunnel rights issue


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# S Africa gets confidence vote from credit rating agency

By Patti Waldmeir in Johannesburg and Richard Lapper in London

South Africa's foreign borrowing plans were given a boost last night when US credit rating agency Moody's gave the republic's sovereign debt an "investment grade" rating, though Standard & Poor's, the other leading US agency, awarded a lower rating.

South Africa's minister of finance, Mr Chris Liebenberg, welcomed news that Moody's had awarded a BAA3 rating, saying this demonstrated "confidence in the coherence of the economic policies and political stability brought to the country by the government of national unity".

He said that Standard & Poor's, which awarded a BB or sub-investment grade rating, had also said it forecast a "positive outlook" for the country.

South Africa had been seeking an international credit rating since last April's elections brought President Nelson Mandela's government to power, yet its first formal rating, from the European agency IBCA, was a disappointing BB, putting it on a par with countries such as Mexico, Hungary and Argentina.

That news was greeted with dismay in South Africa because many international fund managers are prevented from buying sub-investment grade bonds.

Officials said they were pleased with Moody's higher rating, which puts South Africa ahead of


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both Mexico and India.

Moodys' said this was based on South Africa's low external debt, as well as on the the new government's commitment to redirect spending to a comprehensive development programme while reducing the public sector deficit. The agency said it believed the international community would provide more financial aid, credit and investment to support this effort.

Mr Carlos Cordero, a partner with Goldman Sachs, the investment bank that is advising the government, said he was "delighted" with the rating, which should allow South Africa to "access a wider range of capital around the world".

South Africa has borrowed money in European markets without an official rating, but yesterday's news will permit it to re-enter the US market. In its June budget, the government said it would raise R1.8bn ($500m) from the international capital markets in the current financial year.

External debt has been paid down in net terms since 1985, when international banks refused to roll over loans to the republic, in response to political unrest.

Moody's said it had also based its rating on the expectation that South Africa's political, civil service, and business leadership would guide the political and economic transition effectively.

However, many investors still doubt whether the new leaders will be able to resist pressure for more populist economic policies.

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EUROPEAN NEWS DIGEST

# Bonn to press for $CO_2$ cuts

The current German presidency of the European Union will today try to push for new cuts in carbon dioxide emissions running into the next century, even though the Twelve have still to put in place measures sufficient to meet existing targets on greenhouse gas reduction. Draft conclusions for today's meeting of EU environment ministers in Luxembourg call on the European Commission to set reduction targets for $CO_2$ to 2005 and 2010. The Union is committed to stabilising $CO_2$ emissions at 1990 levels by 2000, under the Rio Convention on Climate Change. The conclusions acknowledge that "the measures taken so far by individual member states and at European level will not suffice" to meet this pledge, and call in addition for EU-wide taxation of energy sources. The nearly three-year-old Union plan for a mixed carbon and energy tax of up to $10 per barrel of oil equivalent – strongly backed by Germany and northern states – now looks as though it will give way to an aggregate of national taxes on fuel. "The Germans are much more flexible about what a tax instrument might be," said one official from the UK, which opposes the principle of an EU-level tax. *David Gardner, Brussels.*

## Consumer confidence grows

Business and consumer confidence is climbing strongly in the European Union as the first effects of the economic recovery filter through, the European Commission said yesterday. Not only were consumers less worried about their own financial situation in August, but there was also a marked decline in fears about job security, it said. The review noted that industrial capacity utilisation had recovered to 80.4 per cent, the same as in October 1992 although still well below the peak of 85.8 per cent at the height of the last economic boom in 1988. But it stressed that there was no immediate risk of capacity shortages which could trigger a sudden rise in inflation. The Commission noted that domestic demand was rising steadily, broadening the base of the economic recovery which is still mainly export-led. "The latest business survey findings indicate particular optimism in Greece, Ireland, the Netherlands and the United Kingdom," it said. *Reuter, Brussels*

## Turkish privatisation snag

A draft law to speed up Turkey's privatisation hit new obstacles after the resignation of a left-wing minister at the weekend, unnerving the stock market and raising fears about the stability of the ruling coalition. The departure on Saturday of state minister Mr Fikri Saglar to prepare his Social Democratic Populist party (SHP), the junior coalition partner, for by-elections in December interrupted the draft's progress toward parliament. Cabinet members had last week announced the bill was ready to go before parliament, giving a lift to the Istanbul stock market. The market index pulled back almost 2 per cent to 26,321.62 yesterday amid renewed fears of delays and signs of fragility in the ruling coalition. Also missing is the signature of Mr Mumtaz Soysal, foreign minister, who was attending a United Nations meeting in New York last week, and the former public works minister, Mr Mustafa Yilmaz. Political analysts said the latest blow to privatisation was a result of political haggling after SHP's insistence on simultaneous approval of a democratisation package, scrapping some laws limiting personal freedoms. Privatisation, one of Prime Minister Tansu Ciller's remedies to contain the big budget deficit, expected to hit TL130,000m (£2.4bn) this year, first ran into trouble when two earlier bills were annulled by the supreme court after opposition challenges. If approved, the bill will pave the way for the sale of big companies in telecommunications, airlines, iron and steel, petroleum distribution and refining, mining and electric power. *Reuter, Istanbul*

## Lisbon acts on shop hours

Portugal's municipal authorities are to be given powers to regulate retail opening hours in response to a campaign by small shopkeepers to ban Sunday opening by hypermarkets and other big stores. Mr Fernando Faria de Oliveira, trade and tourism minister, said yesterday the government would require large stores to close at midday on Sundays in areas where local authorities had failed to stipulate timetables by February 1995. He also announced an Es70bn (£280m) incentive programme to help small retailers modernise. The commerce confederation has threatened to boycott a social pact being forged between government, employers and unions without a government promise to ban Sunday opening and freeze the licensing of new hypermarkets. Portugal has 3.8 retail food outlets per 1,000 inhabitants, the highest level in the European Union. *Peter Wise, Lisbon.*

The FDP is struggling to find its constituency, writes **Judy Dempsey**

# East Germans reluctant to come to party

GERMAN ELECTIONS October 16

Mr Werner Kolmorgen is exactly the kind of person the Free Democrats, the junior partner in Chancellor Helmut Kohl's governing coalition, wants among its ranks in eastern Germany. Full of enthusiasm after the Berlin Wall collapsed five years ago, Mr Kolmorgen set up his own car repair and sales business in the small town of Teterow in the eastern state of Mecklenburg-Vorpommern. He also joined the FDP after being a member of the Liberal Democratic party of Germany, a former "bloc" organisation sanctioned by the east German Communist party. He even ran for local government, becoming elected deputy mayor for the tiny hamlet of Gross Wokern.

But two years ago, Mr Kolmorgen, 42, left the party. "I just gave up with the FDP. I pulled out of the party. I could not identify with it any more. It had no direction, no relevance for me," he said.

Now Mr Kolmorgen is not certain for which party he will vote in federal elections next month. The fact that this hard-working manager, who represents the fledgling *Mittelstand*, the small and medium-sized enterprises which formed the backbone of the FDP in western Germany, has turned his back on the party reveals a problem common to all the western parties in eastern Germany. They are having great trouble finding their natural constituencies.

After German unification, the FDP had a big advantage over the other parties. It inherited two large "bloc" parties: the Liberal Democratic party of Germany which had 120,000 members, and the National Democratic party of Germany which had a membership of 105,000.

As there was with the other bloc parties, there was a massive exodus of members after 1990; there was no longer the political pressure to join a party. By then, the newly founded FDP in eastern Germany had about 130,000 members. Today, it has fewer than 31,000.

"The first difficulty is that we have no *Mittelstand* – no strong economic or entrepreneurial class to underpin the party," said Mr Wulf Oehme, the FDP's manager in Berlin.

About 40 per cent of its membership in the east consists of the *Handwerk*, or small crafts and trades; intellectuals and scientists make up about 30 per cent, the rest are pensioners and teachers.

The second problem is that the FDP has no personalities. "We had Hans-Dietrich Genscher [the former foreign minister]. The easterners identified with him. They do not identify with Klaus Kinkel [the leader of the FDP and foreign minister]."

Yet both Mr Oehme and Mr Kolmorgen believe these reasons do not fully explain the extraordinary demise of the FDP, which in the 1990 elections gained 11 per cent of the federal vote and more than 10 per cent in eastern Germany. But in the recent elections in Saxony-Anhalt, Saxony, and Brandenburg, the party did not even gain the 5 per cent needed to enter the state parliaments.

"The party failed to establish a separate political identity, whether it was in coalition or not with governments in eastern Germany," said Mr Oehme. "Maybe we were always under the shadow of the Christian Democrats or the Social Democrats in the east. In any case, we failed to be different, and we failed to seek new allies."

More crucially for the FDP's political philosophy, Mr Oehme believed, east Germans simply did not identify with the party's liberal traditions and values. "In fact, liberalism, and I suppose politics, means very little to them. They have other more important things to think about, like coping with unemployment or adapting to the tremendous changes brought about by unification.

"The east Germans do not want any more change. So when they voted for the CDU in Saxony or the SPD in Brandenburg, they opted for big majority governments based on strong personalities, not party policies. The easterners want certainty and they want leaders who will come down hard on law and order. They do not think about accountability," said Mr Oehme.

Belatedly, the FDP has tried to woo back the vote in eastern Germany. Instead of plastering the region with posters of Mr Kinkel, the FDP in Mecklenburg-Vorpommern has insisted that it put its own local personalities on the election posters. But party activists admit these policies are unlikely to have much impact in time for the elections.

"At the end of the day, the economic development of eastern Germany will influence the emergence of politics based on policies rather than personalities. Then we might have a chance," said Mr Oehme. Perhaps then it might woo back Mr Kolmorgen.

Extreme left-wing demonstrators failed to disrupt celebrations yesterday of the fourth anniversary of German unification, writes Quentin Peel. Police said 250 were arrested and widespread damage caused to shops in the centre of Bremen, where the main festivities took place. Inside the city's congress centre, political leaders heard President Roman Herzog praise the east Germans for "the first successful democratic revolution in our history." AP

# Belgrade's hopes ride on report of UN monitors

By James Whittington in Belgrade

**The United Nations and Nato have failed to bridge their differences over the use of air power against Bosnian Serbs, agencies report from Split. Mr William Perry, US defence secretary, discussed the issue for nearly three hours with Mr Yasushi Akashi, the UN special representative. Afterwards, Mr Akashi indicated that the two sides had agreed on the need for a speedier response to provocations, but he could not unconditionally agree with Nato's call for strikes to be made without warning. In Sarajevo, the UN announced that seven convoys carrying supplies for its peacekeeping forces were being allowed to proceed by the Bosnian Serbs, despite a day's delay in implementing an agreement.**

Belgrade is holding its breath as it awaits news of a delayed report by a United Nations team on whether Serbia's President Slobodan Milosevic has fulfilled his promise to close the border with the Bosnian Serbs to everything but food and humanitarian goods.

If the report is positive, this will clear the final hurdle to suspending some of the 28-month-old international sanctions on Serbia and Montenegro, the two remaining constituents of Yugoslavia. Belgrade's airport will be reopened to foreign flights, and sporting and cultural exchanges will once again be allowed. Expectations are running high and many Serbs hope a favourable report by the UN monitors will be the beginning of the end of their country's pariah status.

Eighty-five UN monitors have been set the Herculean task of patrolling the 550km border for the past 10 days to see if military and other strategic supplies are still slipping through. Working in small groups, they move from one border crossing to another with an English translator to observe Serbian police and customs officials checking outgoing traffic.

Over the weekend at the Zvornik border crossing on the main road from Belgrade to Pale, the Bosnian-Serb capital, two tight-lipped Finnish monitors watched a light stream of cars cross the Drina river to Bosnian Serb-held territory. Some 40km north, another group was monitoring the Sremska Raca crossing through which heavy vehicles carrying food and medicine waited to pass. Drivers' identities were checked and car boots and lorry trailers were briefly surveyed by the Serbs while the UN monitors looked on, occasionally taking notes. One Serbian lorry driver carrying potatoes and smuggled petrol for Serb-held Krajina admitted that "the inspections are not as tight as they could be. But we get through nothing compared to before".

more than two months ago, some of these border posts were the main supply route to Bosnian-Serb fighters on the front line. Often the roads would be packed with everything from Yugoslav-made T-55 tanks to cars stuffed with light weapons and grenades. Mr Milosovic said he would stop this traffic in early August when Dr Radovan Karadzic, the Bosnian Serb leader, refused to follow him in accepting the peace plan devised by the so-called contact group of nations.

Diplomats in Belgrade say they believe Mr Milosovic is committed to closing the border with his former protégés. "He has been let down and embarrassed by Karadzic and must now concentrate on getting his own house in order. This means getting sanctions lifted," says one.

But a comment by Mr William Perry, US defence secretary, at the Nato summit in Seville over the weekend suggests the Americans, at least, are not convinced Mr Milosovic has closed the border completely. "We have incomplete reports that indicate that [the blockade] has been partially, but not fully, complied with. [There is] certainly not a complete stoppage," he said.

Even the UN monitors on the ground admit that the difficulty in monitoring such a long border with so few men means that their report will be by no means definitive. A final decision on whether the sanctions will be suspended rests with Dr Boutros Boutros Ghali, UN secretary general, but he is unlikely to risk undermining Mr Milosevic's attempt to co-operate.

The sanctions under review, however, will not drastically effect economic life in Serbia. Few Serbs can afford air tickets, and any international sporting and cultural links will only provide a much-needed psychological boost. As they wait for the report to be finalised and made public, they are surviving the blanket economic sanctions through massive smuggling operations. Most goods are easily available in Belgrade – at a price – and there are thousands of cars in the city running on smuggled petrol. Economists say that the smuggling is severely damaging the country's fragile economy and until sanctions are completely lifted, the threat of economic collapse is never far away.

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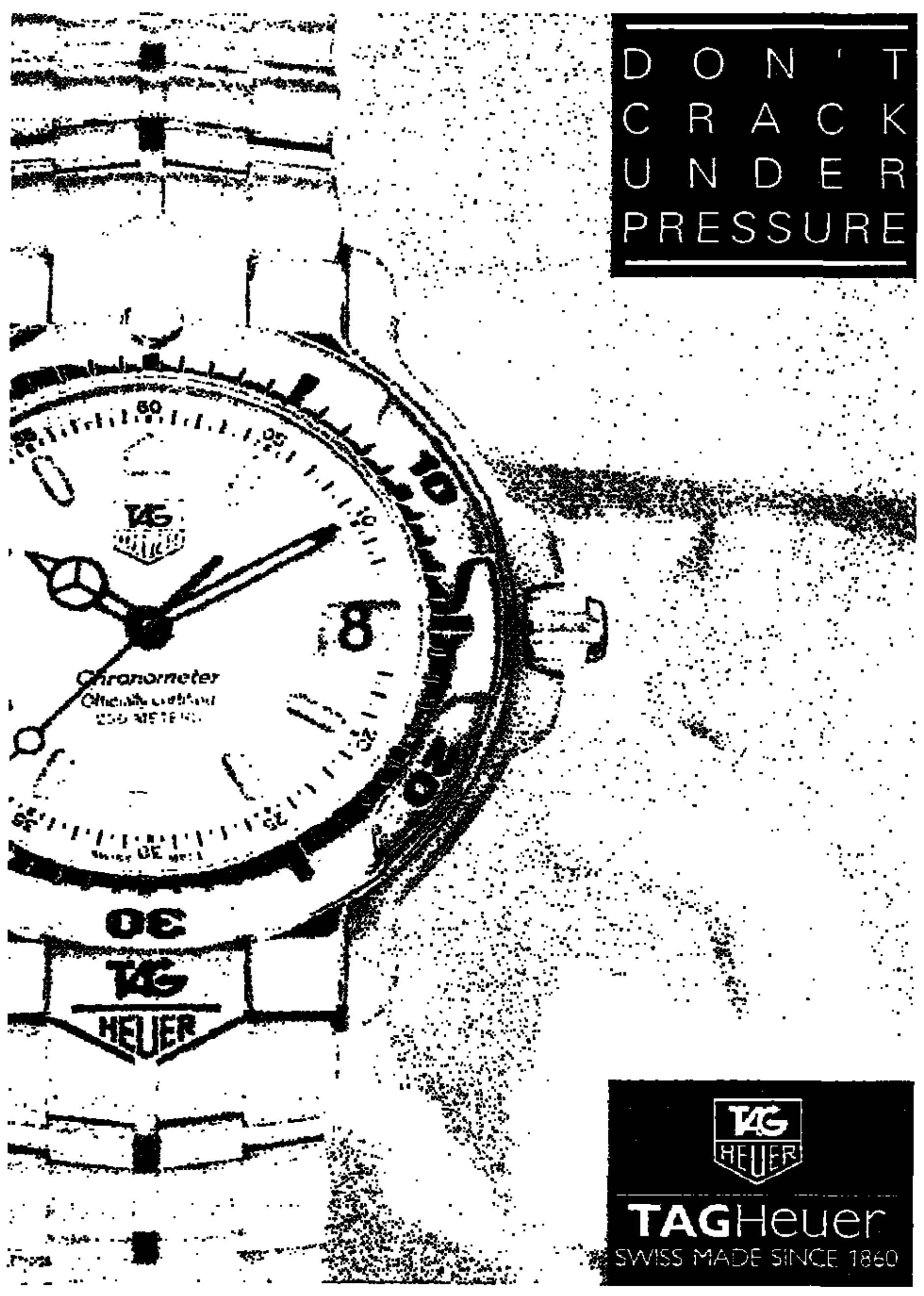
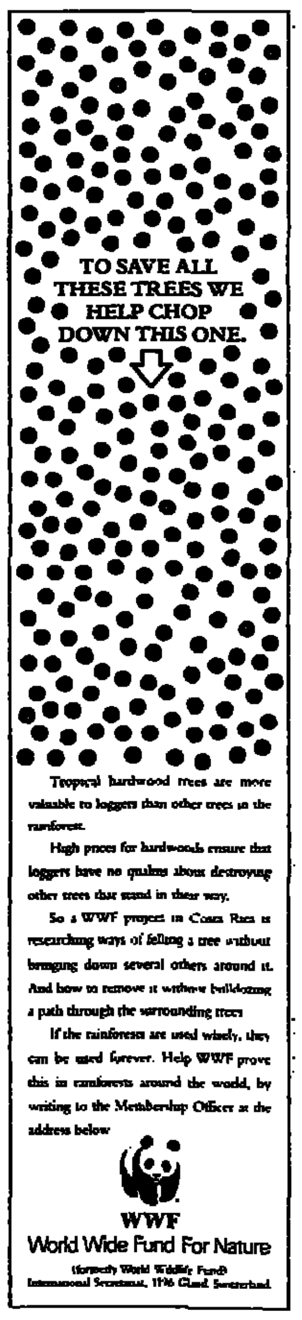



## INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

### UNITED STATES

| | Retail sales volume | Industrial production | Unemployment rate | Vacancy rate indicator | Composite leading indicator |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 7.1 | 100.0 | 102.4 |
| 1986 | 105.5 | 100.9 | 6.9 | 98.0 | 107.1 |
| 1987 | 108.4 | 106.0 | 6.1 | 105.5 | 108.2 |
| 1988 | 112.6 | 110.7 | 5.4 | 108.1 | 112.1 |
| 1989 | 115.6 | 112.4 | 5.2 | 99.3 | 110.5 |
| 1990 | 116.4 | 112.4 | 5.4 | 84.6 | 106.3 |
| 1991 | 114.0 | 110.3 | 6.6 | 82.2 | 111.8 |
| 1992 | 117.6 | 112.9 | 7.3 | 60.3 | 119.8 |
| 1993 | 123.8 | 117.6 | 6.7 | 65.3 | 123.2 |
| 3rd qtr.1993 | 5.9 | 4.2 | 6.7 | 65.7 | 119.6 |
| 4th qtr.1993 | 5.7 | 4.3 | 6.4 | 69.4 | 123.2 |
| 1st qtr.1994 | 7.0 | 5.0 | 6.5 | 71.3 | 123.7 |
| 2nd qtr.1994 | 6.0 | 5.7 | 6.1 | 74.7 | 124.5 |
| September 1993 | 5.4 | 4.4 | 6.6 | 65.5 | 119.8 |
| October | 5.3 | 4.1 | 6.6 | 66.5 | 120.7 |
| November | 5.8 | 4.2 | 6.4 | 68.9 | 122.3 |
| December | 6.0 | 4.6 | 6.3 | 70.7 | 123.2 |
| January 1994 | 4.4 | 4.9 | 6.6 | 66.7 | 123.5 |
| February | 9.7 | 4.6 | 6.4 | 72.9 | 123.5 |
| March | 6.7 | 5.7 | 6.5 | 74.3 | 123.7 |
| April | 6.7 | 5.0 | 6.4 | 73.5 | 124.3 |
| May | 5.8 | 6.0 | 6.0 | 76.4 | 124.3 |
| June | 5.8 | 6.2 | 6.0 | 74.1 | 124.5 |
| July | 4.8 | 6.1 | 6.1 | 76.6 | 124.2 |
| August | | 5.7 | 6.1 | | |

### JAPAN

| | Retail sales volume | Industrial production | Unemployment rate | Vacancy rate indicator | Composite leading indicator |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 2.6 | 100.0 | 96.9 |
| 1986 | 108.5 | 99.7 | 2.8 | 94.3 | 105.8 |
| 1987 | 113.8 | 103.1 | 2.8 | 108.3 | 115.1 |
| 1988 | 122.6 | 113.1 | 2.5 | 135.9 | 122.0 |
| 1989 | 132.5 | 119.7 | 2.2 | 147.0 | 124.7 |
| 1990 | 141.6 | 124.5 | 2.1 | 149.8 | 121.7 |
| 1991 | 144.6 | 126.8 | 2.1 | 144.2 | 119.0 |
| 1992 | 139.9 | 119.0 | 2.1 | 124.2 | 118.2 |
| 1993 | 131.8 | 113.6 | 2.5 | 106.6 | 125.3 |
| 3rd qtr.1993 | -6.0 | -4.6 | 2.5 | 101.7 | 124.2 |
| 4th qtr.1993 | -5.0 | -4.2 | 2.7 | 103.3 | 125.3 |
| 1st qtr.1994 | -3.4 | -3.1 | 2.8 | 101.7 | 129.5 |
| 2nd qtr.1994 | -1.8 | -1.1 | 2.8 | | 130.9 |
| September 1993 | -5.6 | -6.1 | 2.6 | 100.3 | 124.2 |
| October | -6.0 | -5.0 | 2.7 | 98.8 | 124.5 |
| November | -6.5 | -3.2 | 2.7 | 111.8 | 124.5 |
| December | -2.5 | -3.5 | 2.8 | 99.5 | 125.3 |
| January 1994 | -2.0 | -2.7 | 2.7 | 97.0 | 126.5 |
| February | -7.2 | -4.4 | 2.9 | 97.7 | 127.7 |
| March | -5.0 | -2.2 | 2.8 | 110.7 | 129.5 |
| April | -1.9 | -2.0 | 2.8 | 99.5 | 130.2 |
| May | -3.4 | -1.8 | 2.8 | 103.8 | 130.3 |
| June | -0.2 | 0.7 | 2.8 | | 130.9 |
| July | | -0.5 | 3.0 | | 130.9 |
| August | | 3.5 | | | 132.0 |

### GERMANY

| | Retail sales volume | Industrial production | Unemployment rate | Vacancy rate indicator | Composite leading indicator |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 7.1 | 100.0 | 105.2 |
| 1986 | 103.3 | 102.2 | 6.4 | 136.4 | 105.0 |
| 1987 | 107.4 | 102.6 | 6.2 | 149.4 | 108.0 |
| 1988 | 110.5 | 106.3 | 6.2 | 164.8 | 112.2 |
| 1989 | 114.1 | 111.4 | 5.6 | 218.7 | 115.0 |
| 1990 | 123.5 | 117.2 | 4.8 | 281.1 | 115.8 |
| 1991 | 130.5 | 120.6 | 4.2 | 270.7 | 112.6 |
| 1992 | 127.7 | 119.1 | 4.5 | 260.2 | 108.0 |
| 1993 | 122.4 | 110.8 | 5.8 | 197.7 | 113.0 |
| 3rd qtr.1993 | -2.1 | -6.4 | 5.9 | 193.2 | 111.2 |
| 4th qtr.1993 | -5.8 | -3.1 | 6.3 | 180.1 | 113.0 |
| 1st qtr.1994 | 0.4 | 0.0 | 6.5 | 185.1 | 118.2 |
| 2nd qtr.1994 | -2.0 | 3.0 | 6.6 | 189.2 | 118.2 |
| September 1993 | -2.0 | -5.7 | 6.0 | 185.6 | 111.2 |
| October | -3.8 | -4.3 | 6.2 | 178.4 | 111.9 |
| November | -5.0 | -4.0 | 6.3 | 172.2 | 112.4 |
| December | -8.3 | -1.0 | 6.3 | 181.7 | 113.0 |
| January 1994 | 0.2 | -1.7 | 6.4 | 190.9 | 115.0 |
| February | 0.5 | 1.0 | 6.5 | 187.6 | 114.9 |
| March | 0.5 | 0.7 | 6.5 | 198.6 | 118.2 |
| April | -6.0 | 2.8 | 6.6 | 193.4 | 117.8 |
| May | 2.7 | 2.3 | 6.6 | 188.4 | 118.6 |
| June | -0.3 | 4.1 | 6.6 | 186.7 | 118.2 |
| July | -3.0 | 6.4 | | 190.2 | 118.8 |
| August | | 1.2 | | 191.7 | |

### FRANCE

| | Retail sales volume | Industrial production | Unemployment rate | Vacancy rate indicator | Composite leading indicator |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 10.3 | 100.0 | 102.3 |
| 1986 | 102.4 | 101.1 | 10.4 | 107.0 | 109.1 |
| 1987 | 104.5 | 103.1 | 10.5 | 117.2 | 108.7 |
| 1988 | 107.9 | 107.3 | 10.0 | 135.3 | 114.4 |
| 1989 | 108.5 | 111.3 | 9.4 | 160.6 | 114.0 |
| 1990 | 110.3 | 112.8 | 8.9 | 163.2 | 107.5 |
| 1991 | 110.3 | 113.2 | 9.4 | 128.2 | 108.7 |
| 1992 | 110.5 | 113.2 | 10.4 | 109.5 | 106.7 |
| 1993 | 110.7 | 109.4 | 11.7 | 90.0 | 109.8 |
| 3rd qtr.1993 | 0.4 | -2.9 | 11.8 | 88.6 | 107.4 |
| 4th qtr.1993 | -0.5 | -1.5 | 12.3 | 80.3 | 109.8 |
| 1st qtr.1994 | 1.4 | 0.4 | 12.5 | 93.6 | 112.9 |
| 2nd qtr.1994 | -1.3 | 3.4 | 12.6 | 110.8 | 114.4 |
| September 1993 | 1.2 | -3.1 | 12.1 | 87.5 | 107.4 |
| October | -2.7 | -4.4 | 12.2 | 83.8 | 107.9 |
| November | 2.0 | -0.1 | 12.4 | 79.6 | 108.9 |
| December | -0.6 | 0.0 | 12.4 | 77.5 | 109.8 |
| January 1994 | 0.7 | 1.3 | 12.5 | 82.5 | 110.5 |
| February | 1.4 | -0.8 | 12.5 | 96.1 | 111.6 |
| March | 2.0 | 0.6 | 12.6 | 103.3 | 112.9 |
| April | -3.9 | 3.8 | 12.6 | 113.6 | 114.3 |
| May | 3.1 | 3.6 | 12.7 | 109.8 | 114.7 |
| June | -2.8 | 3.1 | 12.6 | 108.3 | 114.8 |
| July | -2.7 | | 12.6 | 105.2 | 114.1 |
| August | | | | | |

### ITALY

| | Retail sales volume | Industrial production | Unemployment rate | Composite leading indicator |
|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 9.8 | 103.8 |
| 1986 | 106.8 | 104.1 | 10.4 | 110.7 |
| 1987 | 112.1 | 106.8 | 10.9 | 112.8 |
| 1988 | 107.9 | 114.2 | 10.9 | 117.7 |
| 1989 | 116.9 | 118.7 | 10.9 | 117.2 |
| 1990 | 114.4 | 118.0 | 10.3 | 112.0 |
| 1991 | 111.0 | 115.4 | 9.8 | 114.9 |
| 1992 | 116.9 | 115.4 | 9.8 | 115.7 |
| 1993 | 114.2 | 112.9 | 10.2 | 121.6 |
| 3rd qtr.1993 | -1.4 | -0.8 | 10.3 | 118.9 |
| 4th qtr.1993 | -6.9 | -0.3 | 10.7 | 121.6 |
| 1st qtr.1994 | | -0.9 | 10.8 | 123.2 |
| 2nd qtr.1994 | | 4.7 | | 122.5 |
| September 1993 | 1.1 | 0.5 | n.a. | 118.9 |
| October | -5.6 | -1.5 | n.a. | 119.9 |
| November | -5.4 | -1.4 | n.a. | 120.8 |
| December | -0.9 | 1.9 | n.a. | 121.6 |
| January 1994 | -6.2 | -3.5 | n.a. | 121.8 |
| February | | -0.2 | n.a. | 122.2 |
| March | | 1.0 | n.a. | 122.9 |
| April | | 6.9 | n.a. | 123.2 |
| May | | 2.8 | n.a. | 123.4 |
| June | | 4.4 | n.a. | 123.2 |
| July | | | n.a. | 122.5 |
| August | | | n.a. | |

### UNITED KINGDOM

| | Retail sales volume | Industrial production | Unemployment rate | Vacancy rate indicator | Composite leading indicator |
|---|---|---|---|---|---|
| 1985 | 100.0 | 100.0 | 11.2 | 100.0 | 102.1 |
| 1986 | 105.3 | 102.4 | 11.2 | 110.7 | 106.6 |
| 1987 | 110.7 | 106.5 | 10.3 | 141.2 | 110.2 |
| 1988 | 117.8 | 111.6 | 8.6 | 144.9 | 108.1 |
| 1989 | 119.9 | 112.0 | 7.2 | 124.7 | 104.1 |
| 1990 | 121.1 | 113.7 | 6.8 | 98.1 | 103.5 |
| 1991 | 119.8 | 109.2 | 8.8 | 68.9 | 103.6 |
| 1992 | 120.5 | 108.7 | 10.0 | 66.8 | 112.8 |
| 1993 | 124.8 | 111.3 | 10.3 | 78.3 | 121.1 |
| 3rd qtr.1993 | 3.8 | 2.3 | 10.4 | 78.3 | 118.5 |
| 4th qtr.1993 | 3.7 | 3.0 | 10.1 | 82.7 | 121.1 |
| 1st qtr.1994 | 3.5 | 4.1 | 9.9 | 84.2 | 123.5 |
| 2nd qtr.1994 | 3.8 | 5.9 | 9.5 | 89.0 | 123.8 |
| September 1993 | 3.4 | 1.5 | 10.3 | 78.3 | 118.5 |
| October | 3.2 | 2.2 | 10.2 | 80.7 | 119.4 |
| November | 3.8 | 3.4 | 10.1 | 80.4 | 120.2 |
| December | 4.2 | 3.3 | 9.9 | 83.8 | 121.1 |
| January 1994 | 3.9 | 4.4 | 10.0 | 84.1 | 122.2 |
| February | 2.8 | 3.9 | 9.9 | 84.3 | 122.1 |
| March | 3.7 | 4.1 | 9.7 | 84.5 | 123.5 |
| April | 4.3 | 6.1 | 9.6 | 87.4 | 123.4 |
| May | 4.1 | 5.2 | 9.5 | 88.3 | 123.6 |
| June | 3.1 | 6.3 | 9.5 | 91.4 | 123.8 |
| July | 3.8 | 4.8 | 9.5 | 93.8 | 124.9 |
| August | 2.8 | | | 97.3 | 125.9 |

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

# Italy's EU farm aid chief held

By Robert Graham

Police yesterday arrested Mr Filippo Galli, the director-general of Aima, the state body controlling EU agricultural aid, on charges of abuse of office as part of a year-long investigation into agricultural fraud.

Mr Galli's arrest concerns the receipt of an alleged L200m ($128,500) bribe from Mr Franco Ambrosio, the so-called "King of Grain", who runs his Italgrani trading empire from Naples. Mr Ambrosio has already been interrogated about Aima aid but yesterday denied he had made any payment to Mr Galli.

The Galli arrest follows that of Mr Giuseppe Fugaro, the deputy head of Aima, for alleged abuse of office related to favours provided to Mr Pasquale Casillo, the owner of Foggia football club and the entrepreneur in the south with the biggest business interests after Mr Ambrosio. Mr Casillo is alleged to have benefited from EU support for fake and inflated third country sales of agricultural produce.

Mr Casillo is believed to be still in jail. Naples magistrates are currently assessing how to tackle the problems arising from the seizure of almost L2,000bn worth of Mr Casillo's assets, including several grain trading companies. Meanwhile, Aima has recently changed its name to Eima and the government is considering its disbandment.

In a separate development yesterday in the corruption investigations, a close confidant of Mr Bettino Craxi, the former Socialist leader and prime minister, told a Milan court he had operated two secret Swiss banks for him with funds totalling L30bn.

The admission came from Mr Giorgio Tradati, who was arrested last week on corruption charges relating to the receipt of a L1bn bribe paid to the Socialists by the state-owned Ansaldo engineering group. His arrest followed evidence uncovered in Switzerland that bank accounts had been opened in the early 1980s at SBS in Chiasso and American Express in Geneva, by Mr Tradati as a front for Mr Craxi. Mr Tradati claimed Mr Craxi had asked him to close the accounts when the corruption scandals began to break but he refused.

Mr Tradati said only L2bn of the L30bn had been transferred to Italy, to help pay the Socialist party's debts and wages of staff at L'Avenire, the party newspaper. The prosecution alleged the monies had been kept secret in Switzerland largely for Mr Craxi's personal use.

This led Mr Craxi to send yet another of his many faxes from his self-imposed exile in Tunisia, saying all the money in the accounts was for party expenses. Mr Craxi is refusing to return to be interrogated, arguing he cannot obtain a fair hearing.

**An Italian opposition leader has caused a political storm by conjuring up a scenario in which Mr Silvio Berlusconi, prime minister, could be accused of corruption, allowing the far right to replace him with a top magistrate, Reuter reports from Rome. Mr Rocco Buttiglione, leader of the Popular party, the former Christian Democrats, said on Sunday: "Some people are saying that there could be a judicial warning against the prime minister and a good substitute would be [Mr Antonio] Di Pietro." Magistrates issue judicial warnings when formally announcing they suspect someone of having committed a crime. Mr Di Pietro is Italy's leading anti-graft magistrate and spearhead of the war on corruption which has swept away the political old guard. Italy's corruption scandals have brushed perilously close to Mr Berlusconi.**

# Business as usual in Baltic, even with faulty door

**Hugh Carnegy** sails from Stockholm to Helsinki on the world's largest car-passenger ferry and finds few concerns for safety

If such issues as safety were bothering the 1,503 mainly Swedish and Finnish passengers travelling on Sunday night from Stockholm to Helsinki on the world's biggest combined passenger and car ferry, the Europa – with a faulty bow door welded fast – they were well disguised.

It may have been a national day of mourning in Sweden for the victims of the Estonia disaster, but the Europa's nine restaurants and seven bars were busy; the nightclub dance floor was packed; and the cabaret show went ahead with all its usual glitter.

*Ms Harriet Johans, the* cruise manager on board, said there had been few cancellations and "surprisingly little" concern expressed by passengers about safety procedures.

The Europa, built in 1993 at the same German shipyard that built the Estonia 14 years ago, does not have the vertically-opening, visor-type bow door which was at fault on the sunken ferry. Its outer bow doors instead open outwards and backwards.

Yet in the rescue operation *of the doomed Estonia on* Wednesday night, the heavy seas damaged the hinges and opening mechanism of the Europa's port bow door, rendering it inoperable.

As the ferry had slipped stealthily out through the narrow passageways of the Stockholm archipelago, Captain Vekko Sjölund insisted his ship's faulty bow doors would have been safe even if they had not been welded shut after the disaster that befell the Estonia.

*"Our bow door is like a cork* in a wine bottle," said the captain as he stood on his darkened bridge watching the navigation lights around the archipelago's hundreds of islands sliding past the 60,000 gross tonne Silja Europa.

"It seals tighter the more it is pushed into the hull. The bow on the Estonia was more like the top on a cola bottle."

Captain Sjölund and his Chief Officer Teijo Seppelin made a persuasive case that the Europa and other Ro-Ro *ferries are nothing like the* deathtraps they have tended to be portrayed as since last week if they are properly maintained and crewed. "I wouldn't be here if they were not safe," said the skipper.

The ship has a panel of 16 indicator lights prominently displayed on the bridge connected to all the hull doors which switch from green to red if the electronic monitors detect a breach or broken seal.

Colour television screens on the bridge scan the cargo *decks and all areas of the ship* sensitive to its stability. On Sunday night, even a man enjoying a jacuzzi in the pool room was clearly visible to the bridge officers on the monitors.

However, the two senior officers admitted the open cargo decks of a Ro-Ro make them quickly unstable if water does get into the ship. They agree that building Ro-Ros with bulkheads – transverse walls to divide the deck space – would make them less vulnerable.

"If you had bulkheads it would be safer of course," said Mr Seppelin. "But it costs more money and it makes loading slower."

## Trials planned to test demand for information services

# French caution on 'superhighways'

By John Ridding in Paris

The French government is preparing to launch trial communications and computer services in selected towns to determine whether to proceed with ambitious proposals to develop a national information superhighway linking French businesses and households.

The move reflects a growing debate within the government and France Télécom, the state telecommunications operator, about the technology and investments required to develop *autoroutes d'information*.

The debate has been fuelled by a report commissioned by the government from Mr Gérard Théry, former managing director of France Télécom. The report is currently being studied by the prime minister's office and is expected to be published within weeks.

Mr Théry's conclusions favour a substantial investment in the infrastructure needed to build a national information superhighway over the next 15 years. The aim would be to connect 5m households and businesses to information networks by the year 2000. The cost of the infrastructure, including the extension of fibre optic cables to households and businesses, is estimated at about FFr10bn (£1.2bn) each year.

The scale of the proposed project, however, has drawn a concerned reaction from France Télécom and some industry observers. The state telecoms operator, which would be expected to shoulder a significant burden of the investment under Mr Théry's proposals, is struggling to reduce a debt burden which totalled FFr105bn at the end of last year. It also believes that the technology required is still evolving and that such a large investment in fibre optic networks may be premature.

"Mr Théry's prescriptions are very bold, but potentially risky," says one telecoms analyst in Paris. "The government is tempted by the idea of a grand, populist project, but it is also anxious to have some idea of the potential demand for services."

Behind such concerns lie the experience of the Plan Cable, the government-backed scheme of the early 1980s to develop a nationwide cable network. Despite FFr30bn of investment by the government and the private sector, however, cable services remain relatively underdeveloped in France, with operators continuing to suffer losses.

The aim of the trial services would be to ascertain the level of demand for new services, from scientific and communications databases to interactive entertainment systems. The sites for the experiments have yet to be selected, but each trial is expected to involve several thousand homes and businesses.

# Party funding probe may force reforms

By David Buchan in Paris

Mr Edouard Balladur: target of criticism

Widening allegations that France's centre-right Republican party has illegally funded itself are prompting calls for a further reform of the country's political finance laws.

Mr Philippe Séguin, the national assembly president, has proposed an all-party study into reforming legislation on the funding of political parties, a move which, according to a Louis Harris poll in yesterday's Infomatin newspaper, would have the backing of 90 per cent of French people.

Mr Séguin criticised Mr Edouard Balladur, the prime minister, for failing to respond to the allegations surrounding his trade and industry minister, Mr Gérard Longuet, by instituting a wider reform. The prime minister confined himself to saying that the investigation of Mr Longuet's affairs should pursue its course, but that if by the end of this month this led to the minister being formally charged, he would be asked to resign.

A Paris prosecutor has asked the Justice Ministry to appoint a magistrate to investigate allegations that the Republican party received some FFr28m ($5.3m) in cash during 1987-91, that it set up an advertising company as a front to cream off commissions from companies, and that it received "particularly advantageous" financing terms from property companies to buy its Paris headquarters.

These allegations come from the same judge, Mr Renaud Van Ruymbeke, who has claimed that Mr Longuet, the party's president and past treasurer, allowed a friendly contractor to subsidise building of his Riviera villa.

Until 1988, all corporate contributions to French political parties were technically illegal, though in practice they were widespread. Laws passed in 1988 and 1990 legalised declared corporate contributions up to certain limits, with an amnesty in 1990 for everyone except MPs involved in previous wrongdoing.

# Azerbaijan in state of emergency

Azerbaijan's President Haydar Aliyev imposed a state of emergency yesterday after interior ministry troops held the general prosecutor captive overnight to demand the release of jailed colleagues, Reuter reports from Baku.

In a television address President Aliyev said the seizure of general prosecutor Mr Ali Umarov by the special interior ministry police amounted to a "coup d'état".

"What has happened testifies to the fact that aggressive forces inside and outside the country are still trying to destabilise the republic," he said.

Mr Umarov was freed yesterday after being held by a 100-strong unit which seized control of the building where he worked.

The president said the force demanded the resignation of the general prosecutor and the interior minister. He rejected these demands.

Government troops then encircled the base to where the disgruntled units had withdrawn after releasing Mr Umarov.

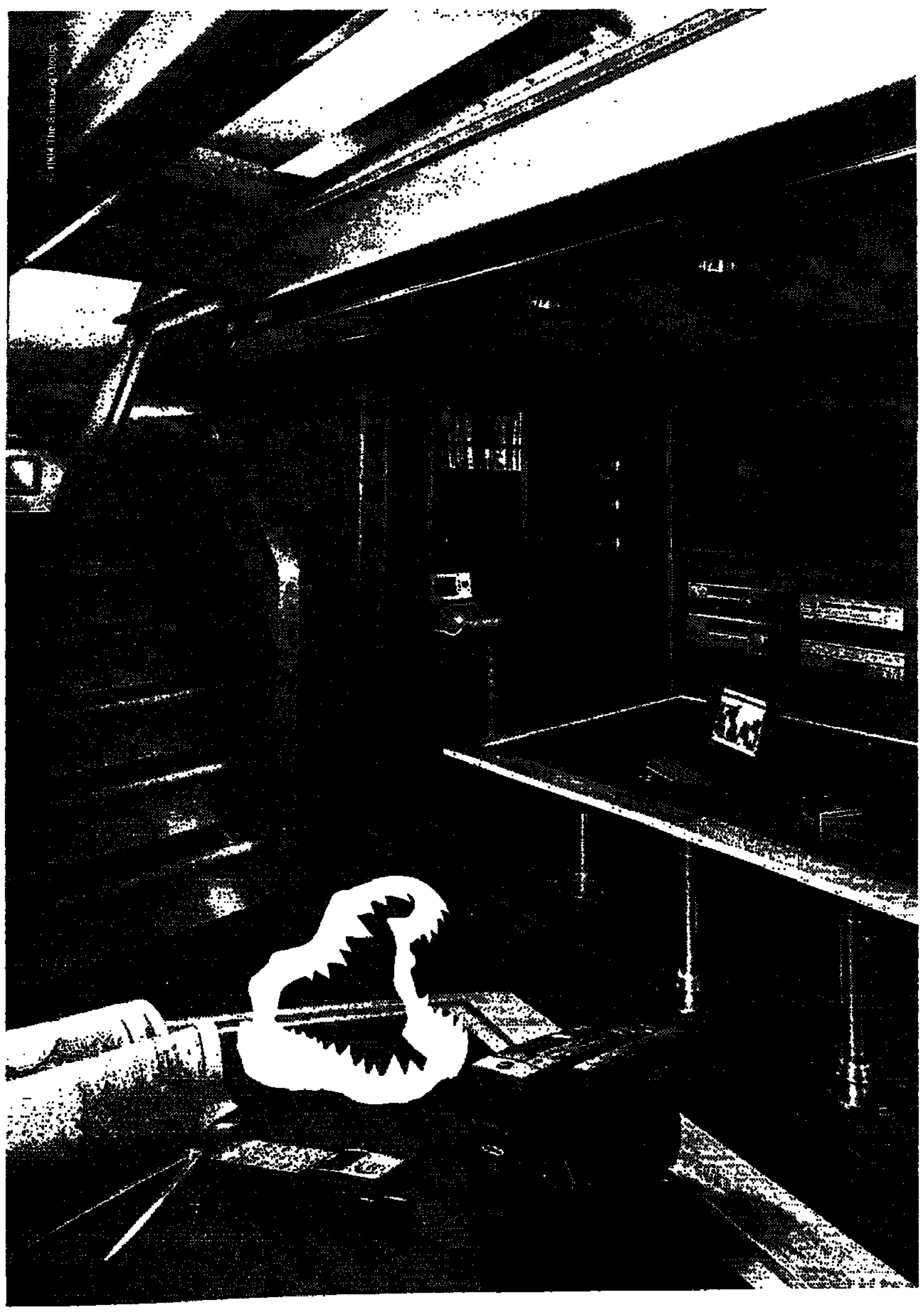
All telephone lines were cut between the capital Baku and Russia and other former Soviet republics. Some satellite lines had also been shut down and the main post office in the capital was closed. A night-time curfew was expected to come into effect.

The state of emergency tightens regulations on entering and leaving the country, imposes media censorship and bans demonstrations and strikes.

It also empowers the president to suspend the activities of political parties seen as destabilising the country.

Witnesses reported that several tanks were patrolling Baku streets, guarding government buildings and military installations.

News reports said government troops had briefly exchanged fire with the interior ministry forces but there had been no casualties.

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# Bonds, dollar fall on US inflation fears

By George Graham in Washington

Financial markets took fright again yesterday as another economic indicator fuelled fears *that the US economy was still* growing faster than it could sustain without provoking a surge in inflation.

The National Association of Purchasing Managers said its index rose from 56.2 per cent in August to 58.2 per cent in September, a level that usually indicates a strongly expanding economy.

Mr Ralph Kauffman, head of procurement and materials management at Oryx Energy and chairman of the association's survey committee, said that on past experience an index level of 58.2 per cent, if it were sustained, would be *consistent with an overall* growth rate of around 4.9 per cent.

The survey of purchasing managers also showed that almost all sectors of manufacturing industry were having to *pay higher prices for their raw* materials.

Treasury bonds fell quickly in response to the NAPM results, and the dollar also slid against most major currencies.

Many dealers believe the Federal Reserve has already been too slow to raise interest rates to choke off the expansion to a growth rate below 2.5 per cent, which the economy could absorb without succumbing to faster inflation.

Among professional economists, however, more are inclined to believe that the Fed, by raising short term *interest rates by 1¾ percentage* points so far this year, has already done enough to engineer a "soft landing," steering the economy back to a sustainable pace of growth.

Mr Kauffman said the NAPM's production index improved from 58.1 per cent in august to 61.2 per cent in September, while the new orders index rose from 60.7 per cent to 61.6 per cent.

The leather, apparel, paper, fabricated metals, printing and publishing industries showed the biggest gains in September.

The NAPM's price index rose from 74.5 per cent in August to 77.1 per cent in September, its highest level for six years.

Of the 20 manufacturing sectors covered by the NAPM survey, 19 reported paying higher prices for their raw *materials.*

# Brazil votes with Cardoso tipped to win

By Angus Foster in São Paulo

Brazil yesterday held its biggest round of elections in 40 years, with last-minute opinion polls predicting that Mr Fernando Henrique Cardoso, a sociology professor turned social democratic politician, was set to become the country's next president.

*Three opinion polls,* conducted at the weekend and released yesterday, showed him with a big lead over his nearest rival, Mr Luiz Inácio Lula da Silva of the left-wing Workers' Party. According to the largest poll, by Datafolha, Mr Cardoso was to win 48 per cent of the vote against Mr da Silva's 22 per cent.

It also suggested Mr Cardoso had a lead of nine percentage points over all the other candidates combined. If he does take more votes than all his rivals, he will win the presidency without the need for a second round next month.

*Mr Cardoso was cheered by* supporters when he left his São Paulo home to vote early yesterday. He said he felt "very emotional" amid the excitement. Advisers said he would wait until Wednesday before commenting on the results.

Also yesterday, Brazil was electing state governors, two *thirds of the federal senate,* and all seats in the federal House of Representatives and state legislatures.

Voting is compulsory and big queues were expected at polling stations as nearly 95m Brazilians, including 8.5m illiterates, chose among 12,000 candidates.

*Electoral authorities expect* to need 10-15 days to count the votes. The first results, probably from urban areas of São Paulo state, were not expected until this afternoon at the earliest.

Mr da Silva, who led in opinion polls until July, said he remained confident that there *would be a second round. He* described the election as "illegitimate" because of the support Mr Cardoso has received from the government.

The latter, who resigned as finance minister this year to seek the presidency, is the man most closely linked with Brazil's new currency, the Real, which has led to a sharp fall in inflation.

Mr da Silva also repeated accusations that Mr Cardoso's party had distributed false ballot papers in which Mr da Silva's name appeared in the wrong place. The left-winger candidate suggested these papers were designed to confuse illiterate voters.

The elections were generally reported to have been peaceful. However, in the north-eastern state of Alagoas, where nearly half the state's electoral judges are under police protection after receiving threats, early reports suggested voting had been delayed in four districts after allegations of electoral *fraud.*

The main candidates in Brazil: Fernando Henrique Cardoso (left) and Lula da Silva Picture: Reuter

# New Supreme Court faces watershed cases

By Jurek Martin in Washington

The second youngest US Supreme Court this century opened its autumn term yesterday with a case load light even by recent standards, but including some important political, social and business-related judgments.

Probably the most widely watched ruling will centre on the constitutionality of imposing term limits on members of Congress. At issue is the opinion of the Arkansas Supreme Court which invalidated a 1992 state referendum imposing limits on congressional representatives while upholding them for elected state officials.

Article one of the US constitution stipulates age, citizenship and residency requirements for members of congress. The Supreme Court must decide whether additional requirements may be added, such as ceilings on the number of years that may be served, with little legal precedent as a guide.

Term limits are a populist cause and 15 states have adopted variations on them since 1990 for local officials. Were the Supreme Court to find them unconstitutional at the congressional level, the Republican party is likely to press even harder for a constitutional amendment making them mandatory.

The Court will also hear arguments on a number of desegregation, discrimination and congressional redistricting cases. But the most politically controversial ruling, already exciting the gun lobby and its opponents, stems from a clause in the 1990 Crime Control Act prohibiting the knowing possession of a firearm within 1,000 feet of a school. A federal appeals court ruled that this provision interfered with commerce and should, in any case, be a matter of local not federal jurisdiction.

No far-reaching business cases appear on the Court docket, with the possible exception of Bentsen vs Coors Brewing, which involves commercial free speech. The government is seeking to uphold a 1935 Prohibition-era ban on brewers advertising the strength of their product, unless state law requires the information be placed on bottles and cans.

The Court will also determine a long-standing dispute between the banking and insurance industries rule over whether banks may act as agents or brokers in selling annuities to their customers. At issue is whether annuity contracts constitute "insurance" under the terms of the National Banking Act.

Among judgments held over from the summer but announced yesterday, the bench refused to overrule a lower court ruling setting aside civil racketeering charges against Mr Michael Milken, the convicted financier.

The policies of the new court are not easy to discern in advance beyond the presumption that its consensus-seeking centre has been strengthened by the arrival of Justice Stephen Breyer. The retirement of Justice Harry Blackmun leaves only Justice John Paul Stevens as a classic liberal, but the conservative flank also appears more marginalised, with only Chief Justice William Rehnquist and Justices Antonin Scalia and Clarence Thomas consistently in the right-wing corner.

The arrival of Justice Breyer, 56, brings the average age of the nine member bench down to 60, the youngest in over 50 years. The Chief Justice, who was 70 last Saturday, is the longest serving member.

# US takes out Haiti faction

US forces in Haiti yesterday stormed the headquarters of Fraph, the nationalist paramilitary faction loyal to the army government, as the US took the initiative on Haiti's political stability, reports James Harding in Washington.

The attempt to neutralise the Front for the Progress and Advancement of Haiti, which killed at least five people at a pro-democracy march last Friday, was the first instance of the more aggressive US policy to disarm those Haitians thought to be trying to derail the restoration of President Jean-Bertrand Aristide.

After US soldiers had raided the offices of Fraph in downtown Port-au-Prince and put a tank outside the building, a crowd of Aristide supporters gathered outside.

The raid will be seen as a response to criticisms, after the violence at the end of last week, that the US forces were failing to guarantee security of pro-Aristide demonstrators. It may also have been pre-emptive – Fraph members were reported to be planning attacks on Aristide activists in the week before his scheduled return about October 16.

The importance of disarming the opposition was reinforced yesterday when a US soldier was shot and injured.

# Mexico move to charge deputy

By Damian Fraser in Mexico City

The Mexican Congress has moved to strip immunity from the member implicated by the attorney-general's office in the assassination last week of Mr José Francisco Ruiz Massieu, who was the number two official in the governing party, the PRI.

The Congress stated that the necessary steps will be taken to lift the immunity of Mr Manuel Muñoz Rocha, a PRI congressman from the north-eastern state of Tamaulipas.

The attorney-general's office is ready to charge Mr Muñoz with having masterminded the assassination.

The deputy was reported missing yesterday, although newspapers suggested that he may be willing to surrender himself.

Investigators said they were told by an accomplice to the assassination that Mr Muñoz Rocha and Mr Rubio Canales, a former colleague of Mr Ruiz Massieu now in prison, plotted the murder to slow political reform in the country, to settle an old score with an enemy, and to weaken the government's battle against drug traffickers.

The dead man's brother, Mr Mario Ruiz Massieu, is the deputy attorney-general responsible for drug enforcement.

Financial markets in Mexico were rattled by the accounts of an alliance between drug traffickers and political reactionaries willing to kill reform-minded politicians.

At mid-morning yesterday, the Mexico City stock market was down 0.9 per cent.

There has been much speculation in Mexico on whether other government politicians were involved in the assassination, and whether there was a link between this crime and the killing last March of Mr Luis Donaldo Colosio, the PRI's presidential candidate.

The government's special prosecutor has concluded that Mr Colosio was killed by a lone, deranged gunman.

The attorney-general's office said Mr Ruiz Massieu was shot in the neck last Wednesday by Mr Daniel Aguilar Trevino, who was captured at the scene of the crime. Mr Aguilar said that Mr Fernando Rodriguez González, an aide to Mr Muñoz, had offered him about $15,000 (£9,500) to kill Mr Ruiz Massieu.

Mr Jorge Rodriguez González, the brother of Fernando, admitted his involvement in the crime on Friday, and has directly implicated Mr Muñoz in the attack, according to testimony released by the attorney-general's office.

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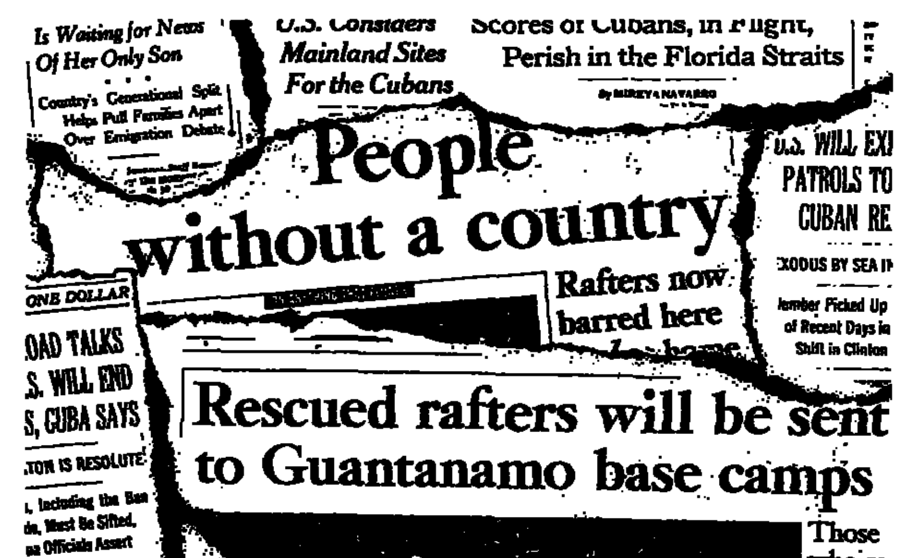


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**NEWS: IMF/WORLD BANK IN MADRID**

# Gatt says Uruguay Round worth $500bn

By Peter Norman in Madrid

The General Agreement on Tariffs and Trade (Gatt) has upgraded its forecasts for the economic benefits of the Uruguay Round of trade liberalisation agreements, Mr Peter Sutherland, Gatt director general, said yesterday.

Mr Sutherland, who was in Madrid for the annual meetings of the International Monetary Fund and World Bank, said that global income in 2005 might be more than $500bn (£316.4bn) higher than it would have been without the market opening measures agreed in the Uruguay Round. That compares with earlier Gatt estimates of a $235bn income gain.

He said the upgrading was the result of work on a new economic model that sought to capture some of the competition enhancing effects of trade liberalisation and the opportunities that it would offer for spreading fixed costs over larger markets.

Even so, the estimates of benefits from the Uruguay Round might be on the low side, because they did not take account of such lasting beneficial effects as increased investment, accelerated economic growth and a healthier climate for research and development and the development of new products.

Mr Sutherland said the Gatt secretariat estimated that, over time, the merchandise trade volume of the 25 industrialised countries of the Organisation for Economic Co-operation and Development would be between 7 per cent and 8 per cent above what it would have been without the Uruguay Round. Developing countries are expected to secure a greater expansion of trade with Gatt's most conservative estimates showing a 14 per cent expansion in their trade.

The Gatt secretary general said he was now more optimistic than before about the outlook for ratification of the Uruguay Round and the eventual creation of the World Trade Organisation, the successor to Gatt, by the beginning of next year.

Altogether 27 governments have signed and ratified the WTO agreement and around 50 governments have said they expect to have completed domestic ratification procedures by the time of the WTO implementation conference in December. He was encouraged about the progress of ratification in the US where, he said, Congress had clarified its procedural intentions in a positive manner.

However, Mr Kenneth Clarke, the UK chancellor, warned in his speech to the joint IMF-World Bank development committee that some of the beneficial effects of the Uruguay Round could be undone through "backdoor protectionism". Attempts to impose labour standards by trade sanctions were not, for example, the solution to the problem of establishing human rights at the work place.

Reviewing industrial country policies towards the third world, the UK chancellor said that it was necessary to have more effective action on debt, more effective and leaner international organisations, a sharper focus on results and more determined action on population growth. He said there was a need to improve the design and implementation of policies and programmes to provide more effective assistance on the ground.

Mr Peter Sutherland, Gatt director general, revealing his new forecast in Madrid yesterday for Uruguay Round global income

Moscow faces the unknown as opposition grows to its loan requirements

# Russia fails to achieve its mission

By John Lloyd in Moscow

Russia has failed to achieve a significant part of what it hoped to get from the International Monetary Fund in Madrid – but the biggest disappointments may still lie ahead.

In making an argument for substantially increasing both IMF borrowing and postponing debt payments, Russia has run up against both the resentment of the third world countries – which have seen Russia being made a special case by the IMF and the World Bank while they languish – and the scepticism of powerful members of the Group of Seven.

The G7 now insists on greater commitment to, and evidence of, radical reform on Russia's part before it approves extra expenditure.

Russia had wanted an increase in its ability to borrow; a standby facility enlarged from $4bn (£2.5bn) to more than $5bn, and access to a third tranche of the systemic transformation facility, under which it has already borrowed $3bn in two equal parts.

It has been rebuffed on the second of these – as it seems to have been on an as yet unpublicised plan put forward by Mr Alexander Shokhin, the deputy prime minister for the economy, to "re-adjust" the $80bn debt burden which will be due for discussion after the detailed negotiations with the IMF later this month.

The push for extra funds already appears to have claimed a victim. According to Russian media reports, Mr Konstantin Kagalovsky, the Russian executive director of the IMF, has resigned (effective January 1 next year) – possibly to be replaced by Mr Dmitri Tulin, presently a vice-chairman of the Russian central bank.

Mr Kagalovsky, whose tenure at the bank has been under attack from within the Russian government for some time, was the strongest advocate of an expanded lending programme. He appears to have paid the price for its not coming through. However, Russia's biggest test is yet to come. The debate in Madrid is about how much *could* be on offer: negotiations between Russian and IMF officials later this month will determine how much *will* be on offer.

Just as the IMF delegates were gathering in Madrid, Russian reform was fraying. The rouble plunged; and at the same time it became clear – in part because Mr Yegor Gaidar, the former prime minister, clarified it – that the government had for the past six months been much more lax in issuing credits than they had wished to be known. In July and August, for example, they had issued some Rbs13,00bn of credits to cope with the expenses of the harvest and the provisioning of the northern territories.

This laxity is coming home to roost. Already September's inflation is reckoned to have come out at around 8 per cent, double that of August's (the year's lowest). If the rouble continues to fall (it dropped a further 10 points yesterday) it will put more pressure on the inflation rate and the Russian central bank would be unable to stop it without wasting its slender reserves (of around $4.5bn).

**The IMF has been pressing the Russian government to attempt to reach an inflation rate of 1 per cent a month by the end of next year, while Russian ministers and officials have been arguing that 3 per cent is more realistic**

In recent talks, the IMF has been pressing the Russian government to attempt to reach an inflation rate of 1 per cent a month by the end of next year or the beginning of 1996, while Russian ministers and officials have been arguing for what is in their view a more realistic 3 per cent.

Further, the IMF will certainly insist on a more interventionist role in the budget in return for a standby facility of $4-$5bn – specifying, for example, cuts in particular subsidies such as those to the coal industry or to agriculture, rather than acquiescing in simple across-the-board sequestrations which have left millions of workers without pay and cut down haphazardly on investment; the useful and the useless alike.

For the past year, Russia has had a reform which if not pain-free, has certainly been less painful than expected. Official unemployment has remained low: the real standard of living has, on most figures, gone up and inflation has steadily come down – even as the budget deficit was seen to stay within the IMF limits of under 10 per cent of GNP.

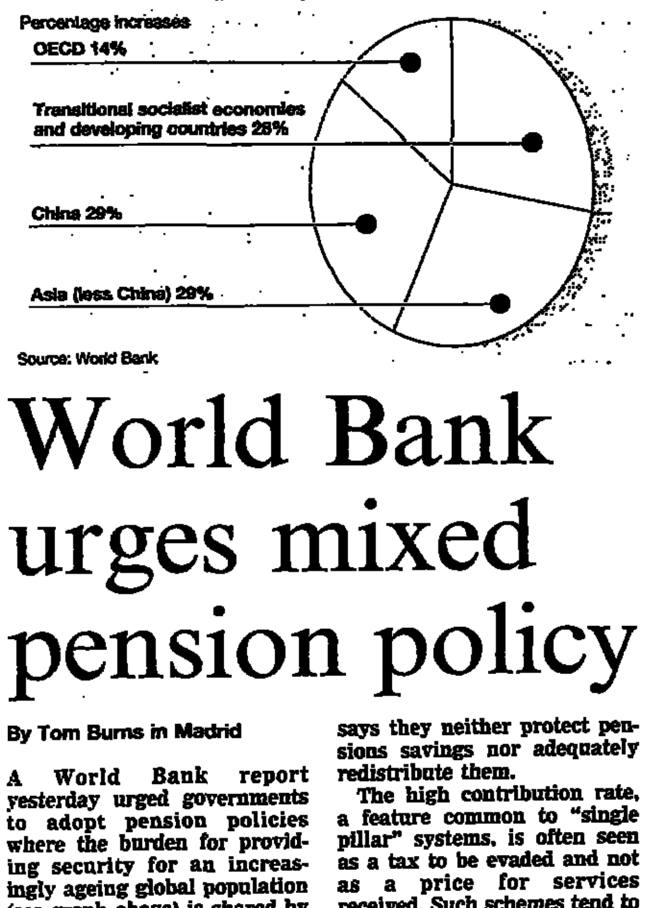
Now, that miraculous time appears to be over – and the rouble exchange rate is the most vivid outward sign of it.

Either real cuts are made in the structure of subsidies and industrial production is reshaped – or, say IMF officials, new borrowing will be at risk. Mr Ernesto Hernandez-Cata, deputy head of the Europe II department which deals with the former communist states and who is the most experienced negotiator with the Russian government, said in Madrid over the weekend: "We consider a more radical approach deserves the maximum consideration on our part."

This means that a less radical approach will attract minimum consideration – perhaps none.

The message from Madrid is that the world cares less about Russia and is less well disposed towards it than many in its government had thought. Is it ready to heed that message and tighten the belt again? Or can it no longer do so?

**World population over 60 by 2030**




Source: World Bank

# World Bank urges mixed pension policy

By Tom Burns in Madrid

A World Bank report yesterday urged governments to adopt pension policies where the burden for providing security for an increasingly ageing global population (see graph above) is shared by the public and private sectors, mixing mandatory and voluntary schemes.

Warning that old-age security systems are in trouble worldwide, the report also called on governments to lift constraints on foreign investments by national pension funds in order to diversify risk and gain higher returns.

The report stressed the "ageing problem" had spread quickly to developing countries where the impact of declining fertility and increased longevity has allowed populations to age faster than in traditional industrial societies.

It took more than 100 years for Belgium to register a doubling, from 9 per cent to 18 per cent, of its over-60s population. The same transition will take just 34 years in China, according to present forecasts and 22 in Venezuela. In 1990 almost half a billion people, slightly more than 9 per cent of the world's population, were over 60 years old and by 2030 the number will have tripled to 1.4bn.

The report argues against "single pillar" pension schemes in which publicly managed funds,financed out of payroll taxes on a pay-as-you-go basis, provide earnings-related benefits to the aged. It says they neither protect pensions savings nor adequately redistribute them.

The high contribution rate, a feature common to "single pillar" systems, is often seen as a tax to be evaded and not as a price for services received. Such schemes tend to distort local economies and reduce growth, mainly in countries with limited tax enforcement powers, imperfect labour markets and large informal sectors.

The World Bank suggests a "multi-pillar" system in which there would be a publicly managed and tax-financed "pillar" that would have the limited object of alleviating old-age poverty, possibly using means-tested programmes; a second mandatory "pillar", based either on personal savings accounts or occupational plans, that would be fully funded and privately managed; and a third voluntary "pillar" for those wishing additional protection.

The advantage for the ageing of the three-pronged approach is that it would concentrate the redistributive features of a public pension scheme on the first "pillar", allocate its savings role to the second and allow for extra savings through the third.

The "multi-pillar" system would improve the insurance feature of national pension schemes by diversifying their risk.

*Averting the Old Age Crisis. A World Bank Policy Research Report. The World Bank, Box 7247-8619, Philadelphia, PA 19170-8619, US.*

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NEWS: INTERNATIONAL

# Taiwan index hits second high in 2 days

By Laura Tyson in Taipei

The Taiwan stock exchange index hit a second four-year high within two trading days yesterday, in anticipation of government support for share prices to boost the ruling party's prospects in December's elections.

On December 3, voters will choose a provincial governor and mayors for Taipei, the capital, and the southern port city of Kaohsiung. Previously these were appointed posts. They will also elect the provincial assembly and councils for each of the two cities.

Gauging by historical precedent, political imperatives, remarks by senior officials and monetary factors, stock market analysts believe the index could top 8,000 before the year ends.

Yesterday's close was 7,183.75 points on moderate turnover of T$64.16bn (£1.56bn).

The governing Kuomintang's grip on power has slipped in successive elections since democratisation began with the lifting of martial law in 1987.

The Democratic Progressive party, the leading opposition party, now controls one-third of Taiwan's counties and holds nearly a third of seats in the Legislative Yuan, the country's primary law-making body.

In recent years the policies of the KMT have moved so closely into line with those of the opposition as to be nearly indistinguishable. KMT leadership has all but publicly declared Taiwanese independence from China, long the defining issue of the opposition, in an attempt to win votes.

The ruling party is expected to win polls for the provincial governorship, largely a figurehead post, and thought likely to retain control of the Kaohsiung mayor's office. But it is widely seen as a *fait accompli* that the influential position of Taipei mayor will go to Mr Chen Shui-bien, the lawyer-turned-legislator of the DPP party. Mr Chen launched his political career defending dissidents arrested in a 1979 crackdown on opposition.

"Winning a mayoral seat would give the DPP a degree of legitimacy it did not have before," Mr Peter Kurz, head of Asia-Pacific research for Baring Securities (Hong Kong), said. "This would be the first time the DPP has attained an administrative position of real significance."

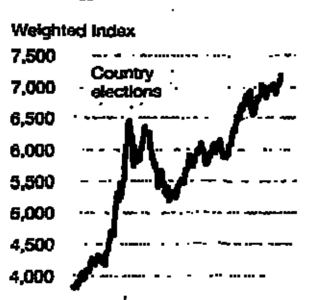
The stock market rallied sharply leading up to and after island-wide county elections in November 1993.

The KMT retained control of most counties, but the DPP captured 42 per cent of the popular vote, its best showing.

The three leading commercial banks led yesterday's gains. The banks are seen as bellwether stocks, and often their rise marks the beginning of a rally. "A lot of people were caught napping last year, so when the banks start to move the fear factor sets in," a stock analyst at a UK securities house said.

See world stock markets

Taiwan



Source: FT Graphite

# Port row goes right to HK jugular

## Desperately needed ninth terminal is feared dead, Louise Lucas writes

The Hong Kong government is to accelerate development of the colony's 10th and 11th container terminals, given fears that the desperately needed ninth terminal is effectively dead.

Container Terminal 9 (CT9) is already 18 months behind schedule. Progress has been mothballed by politics, with China refusing to approve the project (which straddles the 1997 handover, and therefore requires endorsement from Beijing) unless Jardines is ejected from the consortium developing the terminal.

China claims that Jardines' inclusion in the consortium was a pay-off for supporting Governor Chris Patten's democracy reforms: Hong Kong says that it operates a level playing field for all its contracts, and that to suggest otherwise is to damage the colony's international business reputation.

The stalemate over the terminal, allied to the lack of practical alternatives for extending the colony's port, will spark huge problems of congestion and bring a knock-on effect to the economy, analysts say.

Like the airport, also running at capacity and also the subject of a Sino-British deadlock, the port row goes straight for the colony's jugular. Hong Kong, the eighth biggest trading economy, operates the biggest port in the world. Some 90 per cent of Hong Kong's trade passes through it.

Annual increases in throughput equal the total annual throughput at the UK's biggest port, Felixstowe: about 1.5m containers.

Port operations contribute about 20 per cent of the colony's GDP and employ, in the widest definition of port-related activities, some 350,000 people, or 12-15 per cent of the workforce. While year-on-year growth in throughput stands at about 28 per cent for the year so far, capacity levels were breached back in May. Government figures put the cost of a two-year delay on CT9 at HK$20bn (£1.6bn) in the decade following 1997. This is at the conservative end of estimates, which range as high as HK$200bn.

Current trends point to an even bigger role for the colony's port. High economic growth in China will stimulate both export industries and imports; greater industrialisation in the mainland will mean more goods requiring containerisation; and China's re-entry into the General Agreement on Tariffs and Trade or its successor will promote two-way trade.

Forging ahead with CT10 and CT11 to absorb demand will do little to solve the problems caused by the absence of progress on CT9, and will fail to meet the immediate concerns of shippers and terminal operators.

The time lag is contrary to Hong Kong's traditional just-in-time philosophy whereby new terminals were coming on line as soon as the existing ones reached capacity.

This is the first time, says Mr Tony Clark, secretary of the Port Development Board, that Hong Kong will fail to meet its targets. Moreover, it can no longer rely on mid-stream business to carry things on.

With the Hong Kong port handling around 600,000 TEUs (20ft equivalent units) a month, a year-on-year growth next year of 15 per cent would mean an extra 90,000 TEUs, or a third of total mid-stream business.

Mr Dennis Bray, a consultant and former civil servant, notes that the key victim will be China trade: or, more specifically, south China trade, much of which is Hong Kong-funded.

"I think we are in for some really serious problems next summer," he says. "Once terminal and mid-stream operators see people queueing, they will jack up their prices, and only the expensive shipments will be able to afford it, not the cheap goods from China.

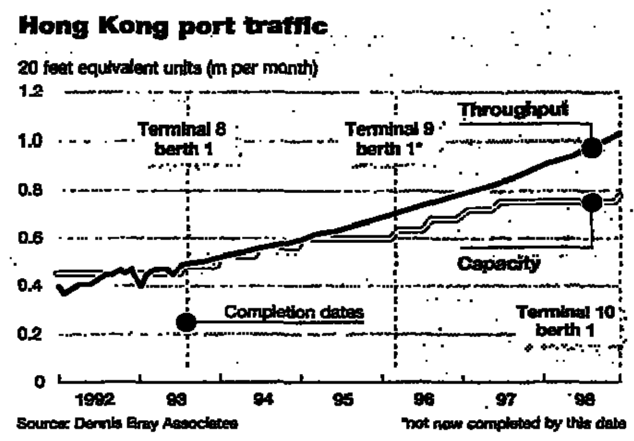
"But before that happens, there will be serious congestion, with ships hanging around the harbour at anchor, rather like a Third World port."

The ports being developed in China are not yet capable of handling the extra capacity. Nor does China yet have the trading infrastructure, in terms of processing and banking services, to allow big shipments to by-pass Hong Kong: and most such ships are loath to make two stops.

"If we get a typhoon next summer, when we cannot handle any boxes at all for a couple of days and the jams on the roads are so colossal, then I guess there will be some crisis action about providing more land [for existing terminals to expand].

"It's just a pity they cannot do this earlier, because there is going to be one almighty mess," Mr Bray said.

Hong Kong port traffic



Source: Dennis Bray Associates *not now completed by this date

# Tobacco crop profits fall in third world

By Alison Maitland

Tobacco farmers in developing countries could be better off growing crops such as maize, according to a report by Panos, the independent London-based research institute.

The report challenges claims by the tobacco industry that the crop is profitable for the third world. It says tobacco prices have fallen by 50 per cent in real terms over the last decade, assuming annual inflation of 4 per cent.

Last year, prices fell by about a third because of over-supply. They have recovered this year, but the United Nations Food and Agriculture Organisation says global stocks are high, at about 85 per cent of annual output, and expects prices to remain depressed.

At the same time, farmers face sharply increased prices for fertilisers and pesticides. "Falling prices plus rising costs suggest tobacco growing is a poor prospect for the South's farmers," says the report, published to coincide with an international conference in Paris next week on tobacco and health.

Over 40 developing countries export tobacco, but in only two – Malawi and Zimbabwe – does tobacco account for more than 2.2 per cent of foreign earnings, the report says. "The role of tobacco exports in the economies of developing countries needs to be kept in proportion."

According to the International Tobacco Growers' Association, no sustainable alternative crops would achieve the same level of earnings for most tobacco farmers.

The Panos report says such claims are increasingly being disputed and the search for alternatives has been given a boost by the dramatic fall in the auction price of tobacco in Zimbabwe and Malawi last year.

In Zimbabwe, maize had become more profitable in terms of money invested and cost less to insure than tobacco. In Bangladesh, potatoes and cotton gave farmers bigger net profits than tobacco.

The report argues that the health and environmental costs of tobacco production should also be taken into account. The World Health Organisation says that 7m people will die in developing countries from smoking-related diseases every year by 2025 if current growth in smoking continues.

Tobacco crops cause a serious loss of trees, which are cut down for fuel to cure the tobacco, and occupy land for longer periods than alternatives such as maize. "In semi-arid areas, where tobacco thrives, the loss of trees can make land more vulnerable to desertification and unfit for agriculture."

*Tobacco: The Smoke Blows South, £1.95, available from The Panos Institute, 9 White Lion Street, London N1 9PD.*

# UN report ready on Iraqi arms

By Mark Nicholson in Cairo

Mr Rolf Ekeus, the United Nations envoy, arrived in Baghdad yesterday to assess the readiness of systems installed for the long-term monitoring of Iraqi weapons programmes – a central condition for the eventual lifting of the oil embargo maintained against Iraq since its 1990 invasion of Kuwait.

Mr Ekeus declined to say on his arrival when the monitoring systems would be fully operational, information he is due to convey in a report to the UN Security Council on October 10.

But UN officials in New York said they expected Mr Ekeus to declare that systems for monitoring possible missile, chemical, nuclear and biological weapons production to be "provisionally operational" within a few weeks, at which point a "test period" of the monitoring could begin.

According to diplomats at the UN, such a report would then seriously test the unanimity of the UN Security Council on whether to offer Iraq a definite timetable for compliance with long-term monitoring of its weapons programmes.

France, Russia and China have already made it clear that, if Mr Ekeus' report is positive, they would would then argue that a "probation period" of six months should immediately begin to test Iraqi compliance with long-term monitoring – after which the Security Council should discuss lifting the oil embargo. The US and Britain, however, have made it equally clear that they would strongly oppose setting any such a definite deadline.

UN inspectors have now installed an array of monitoring devices and prepared detailed blueprints of factories and manufacturing operations which could produce weapons banned under the Gulf war ceasefire resolutions. UN officials said devices to monitor missile production and testing, including cameras at several sites, were fully in place, that surveillance methods at potential chemical weapons production sites were "just starting up" and that means for surveying possible biological weapons production were soon to be installed.

Iraqi officials insist that they have fully met all Gulf war ceasefire conditions and that the Security Council should respond by offering at least some easing of the embargo once the UN monitoring programme begins any test period. Officials warned last week that unless Mr Ekeus could offer some such concessions, Iraq would "explore other ways of dealing with the Security Council".

Whatever Mr Ekeus reports, however, there is unanimity in the Security Council that no easing of the embargo can take place until and unless Iraq formally recognises both the sovereignty of Kuwait and the legitimacy of UN-demarcated borders between Iraq and its southern neighbour. "Until they have done this, nothing else will happen," said a western diplomat.

# Rabin predicts treaty with Jordan by end of this year

By a correspondent in Jerusalem

Israel's Prime Minister Yitzhak Rabin yesterday predicted a full Israel-Jordan peace treaty by the end of the year, and urged the electorate to back his readiness to trade land for peace with Syria.

In a speech at the opening of the winter session of the Israeli Knesset, Mr Rabin gave the first detailed public exposition of his position on a possible accord with Syria, offering a "very limited" initial withdrawal from the Golan Heights, to be followed by a three-year trial period of normalised relations, and then a more substantial pullout. Significantly, he did not rule out a complete Israeli withdrawal from the Golan.

Indicating that the 13,000 Jewish residents of the Golan had now outlasted their usefulness, the prime minister declared that sending Jews to settle the Heights after their capture in the 1967 Arab-Israel war had been "the right act, at the right time, in the right place". But now, he said, there were signs that, in return for the Golan, Syria was ready for peace. "I want to ask you, friends on the Golan, what should we do? Shouldn't we try?"

Mr Rabin emphasised that, in contrast with Jordan, where he was hopeful of a peace treaty by the year's end, negotiations with Damascus were still in their earliest phases, with big gaps between the two sides' positions.

The prime minister was followed at the rostrum by Mr Benjamin Netanyahu, leader of the main opposition Likud party, who accused the government of abandoning cherished Zionist values by contemplating a "selection" process for would-be immigrants from the former Soviet Union, to weed out the elderly and sick. Incensed, Mr Rabin denied the claim, demanded an apology and stalked out of the hall.

# Berber question returns to haunt troubled Algeria

## Kidnapping of a singer has threatened to drag a nationalist element into the violence, writes Francis Ghilès

The recent kidnapping in Algeria of the Berber singer Lounes Matoub has again raised the issue that has haunted modern Algeria – the Berber question, or, to be more precise, the Kabyle question.

Matoub is a militant of the Berber Cultural Movement (MCB) which calls for Berber to be treated as a "national" language in Algeria, on a par with Arabic, and for it to be taught in all schools.

As provocative as he is popular, Matoub recently claimed he was "neither an Arab nor a Moslem" and argued that the Kabylia Berber heartland, a mountainous region 100 miles east of Algiers, should be granted autonomous political status.

His latest record, Kenza, is dedicated to the daughter of Tahar Djaout, a Kabyle writer and polemicist who was murdered by supporters of radical Islam in June last year. Matoub is suspected of being held by a similar group. The singer's publicly expressed love of whisky has turned him into what Tahar Djaout was until his death, the man religious zealots love to hate.

On Sunday more than 100,000 people took part in a peaceful demonstration in the Berber capital of Tizi Ouzou marked by calls and threats for the safe return of Matoub.

The MCB plans simultaneous protests tomorrow and on Thursday in four cities, including Algiers and Tizi Ouzou.

The original inhabitants of North Africa were Berberbut the process of Arabisation, the adoption of Arabic language and culture, has, over 13 centuries, left only a third of the Maghreb's 60m people with Berber as their mother tongue. Between 20 and 25 per cent of Algeria's 26m people speak Berber, two-thirds of them coming from Kabylia.

The Kabyles played a key role in Algeria's modern history, one quite out of proportion to their numbers.

Between the two world wars, emigrants from Kabylia formed the vast majority of Moslem Algerian labourers in France where they founded the first Algerian nationalist movement, L'Etoile Nord Africaine.

As trades unionists, and with the help of French Communist party members, they became acquainted with modern ideologies and methods of resistance. The Etoile and its post-war successor, the Party Populaire Algerien, provided the fount of modern Algerian politics. The idea of independence for what had been for a century three French *departements* came from their ranks.

During the eight bloody years of the war of independence which started in 1954, the two Berber mountainous heartlands, Kabylia and the Aurès mountains to the south, witnessed some of the worst fighting between French troops and the armed supporters of the Front de Liberation National (FLN).

The leading ideologue of the FLN, Abane Ramdane, a Kabyle, was murdered by some of his peers in Morocco in 1958 – an act which symbolised the events which were to take place at independence in 1962 when those FLN leaders who had spent most of the war years in Morocco and Tunisia usurped power from those who had fought in the bush. This "betrayal", as it is now seen by many, opened a wound which has yet to be healed.

Despite the fact that Krim Belkacem, who led the talks at which France agreed to Algerian independence, was a Kabyle, the new rulers of Algeria, President Ahmed Ben Bella and – after he was ousted by a military coup in 1965 – Colonel Houari Boumediene, clamped down on the freedoms their countrymen had paid such a heavy price to win. All expression of Berber culture were forbidden and fast Arabisation imposed.

The MCB was born after riots in Tizi Ouzou in 1980 forced the new president, Colonel Chadli Bendjedid, to grant a greater measure of freedom. Singers such as Matoub, who had adapted old Kabyle songs to a more modern musical form, had already become popular. Music became a key vehicle for the expression of a culture and language whose alphabet is the old Phoenician script but has not be commonly written for centuries.

Like most of their countrymen, the Kabyles are not of one mind. The lines that fracture Algerian society run through Kabylia as they do through every social group and region. After riots in 1988 broke the power of the FLN, two parties boasting a distinct "Kabyle" identity emerged. The Rassemblement pour la Culture et la Democracie (RCD) traced its roots to the MCB while the Front des Forces Socialistes (FFS) rose from the clandestinity forced on it since its foundation in 1963.

In the first round of the elections in December 1991, the FFS did much better than the RCD. The two leaders reacted very differently to the annulment of the election in January 1992 and the de facto military coup that accompanied it. Despite being deeply opposed to the ideology of the Islamic Salvation Front (FIS), which looked set to win the election, the FFS leader Mr Hocine Ait Ahmed opposed the suspension and argued that democracy could only be won on the ground.

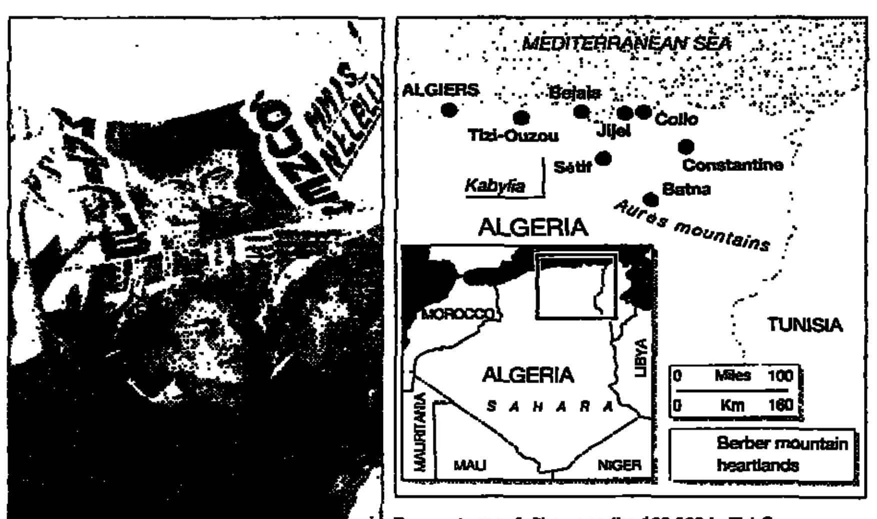
The RCD leader, Mr Said Sadi, whose links with certain military commanders was an open secret, backed the coup. On learning of the 47.3 per cent share of the vote the FIS had picked up in the first round, against the RCD's meagre 2.9 per cent, he confessed to not understanding the country he lived in. For a while he was a firm advocate of "eradicating" fundamentalism.

The Christian schools set up in Kabylia by the French in the late 19th century and, later on, emigration to France, gave Kabyle Berbers a training in the ways of the modern world and gave rise to a more literate people than any other social group in Algeria.

Many Kabyle Berbers still support the FIS, one of whose most renowned military commanders, Mohamedi Said, is Kabyle. The man who was responsible for setting the FIS on a solid financial footing, until he "deserted" the movement for the ranks of the *nomenklatura* in June 1991, Ahmed Merani, is Kabyle. One of the no-go areas which the army has lost control of in recent months is the mountains between the ports of Jijel and Collo, part of the so-called "Corniche Kabyle".

Be they "Arab" or "Berber", most Algerians feel insulted by Kabyle Berbers claiming they are "not Moslem". They are also fearful that such statements are conducive to confrontation rather than dialogue, a form of politics desperately lacking in Algeria. Attempts by the FIS and the military to "cleanse" the country of each other have already cost 28,000 lives.

The Berber protest continues



*Demonstrators (left) among the 100,000 in Tizi-Ouzou on Sunday seeking the release of activist singer Lounes Matoub who was kidnapped by a radical Islamic group*

### The language issue

- Ancestors of the indigenous peoples of North Africa, the Berbers were in Algeria centuries before the area became a Roman province in 106 BC, to be followed by the Arab conquest of the late 7th century, the Ottoman takeover in the mid-16th and French colonisation in the mid-19th. Algerian independence was won in 1962.
- Algeria's official language is now Arab (about 75 per cent of the 26m population speak it), and, although French remains widely used, 20-25 per cent of the country's population still consider Berber to be their first language, French the second and Arab only the third.
- "The Algerian authorities deny this is a serious difficulty because Berber is not a written language," writes Peter Mansfield in his book The Arabs. "As the minister of information and culture, Mr Ahmad Taleb, remarked in 1972: 'It is wrong to say that Algeria is made up of Arabs and Berbers...The Algerian people is an Arab-Berber people whose culture is Arab.'"

# Nigeria increases prices sharply

*Food, fuel and transport prices rose sharply in Nigeria over the weekend, stoking inflation already running at more than 100 per cent a year, Reuter reports from Lagos.*

The increases took most people by surprise as, breaking with past practice, the military government gave no warning or the customary explanations that it had to slash subsidies on fuel.

Past increases have triggered protests and strikes in Nigeria, which is a leading oil producer and has domestic prices that are among the world's lowest.

By yesterday there was still no official announcement that prices had been raised. A spokeswoman for state-owned Nigerian National Petroleum Corporation said: "We have no official statement on the matter." She declined to comment further, saying that no senior officials were available.

The price of a litre of petrol rocketed more than four times to 15 naira (43p) from 3.25 naira on Sunday. The price of diesel rose to 14 naira from 3.0 naira and kerosene, the poor man's fuel, went up to 12 naira from 2.75.

Analysts said the government might be keeping silent because it was testing people's reaction, having taken over the leadership of the unions that were most likely to have fought the rise. General Sani Abacha, the military ruler, sacked leaders of the oil workers unions and the labour federation in August to end two months of strikes and protests demanding the restoration of democracy.

Gen Abacha also appears to have broken the political opposition, many of whose leaders are in detention.

"The last time fuel prices were increased the government was brought down," said a western diplomat. "It is by no means certain that the same will happen now."

"Today, the trade unions are under the jackboots and can't react, at least not immediately," said a senior executive of an independent oil marketing company.

Fares in different parts of the country have shot up by as much as 200 per cent as transport operators pass the increased fuel charges on to commuters.

"I charged passengers 700 naira from Gboko [central Nigeria] to Lagos yesterday. Today, I am asking for 2,000," Mr Bala Alli, an intercity taxi driver, said.

Food costs have also risen, pushing up an inflation rate already running well above 100 per cent each year.

"How are people to survive under these circumstances?" asked a housewife at Ketu market near Lagos after paying 50 naira for a tuber of yam which on Friday cost 30 naira. Market traders said prices had been raised to cover increased transport costs.

Nigeria, with a per capita income of less than £210, is one of the poorest nations in the world despite its big crude oil production.

The country has been in turmoil since a previous military government annulled presidential elections last year believed to have been won by Mr Moshood Abiola, a business tycoon. Mr Abiola is in detention awaiting trail for proclaiming himself president in defiance of the military.

# Rwandan camps 'calm but tense'

Rwandan refugee camps in north-east Tanzania were "calm but tense" yesterday and the United Nations refugee agency called for a swift end to lawlessness in one camp in Zaire which had kept aid workers out for a fourth day, Reuter reports from Kigali.

Three days' violence rocked the Ngara camps last week: international aid workers said they were worried for their lives and those of refugees they were trying to help.

The camps in Tanzania and Zaire are increasingly controlled by militiamen and troops of the former Hutu-dominated government defeated in July by the mainly-Tutsi Rwanda Patriotic Front.

Some 800,000 Rwandan refugees are thought to be in the Goma area, with half a million more in north-west Tanzania, in addition to 2m people displaced inside Rwanda by three months of civil war and massacres.

*One aid official* said the Ngara camps were becoming unmanageable; some aid agencies had reported an increasing number of Rwandans entering the camps with guns.

Protection sought for local industry

# Russia plans more tax on western films

By John Thornhill in Moscow

Russia is threatening to impose additional duties on imported western films and videos to help protect the country's stricken film industry and deter video piracy. The move is likely to cause consternation among western film producers, although they are hopeful the decision may be reconsidered.

Mr Yuri Vasyuchkov, a senior official at the state cinema committee, yesterday said a new tax, equivalent to 350 minimum monthly salaries ($2,700), would be imposed on imported films this month. The proceeds of the new tax would be redistributed to Russian film studios.

"Film distributors will now have to pay fees to screen foreign films in Russia. To some extent this will provide help to our cash-strapped film studios," he said.

However, some award-winning films, children's features, non-commercial documentaries and films produced in association with Russian companies would be exempt from the new tax, Mr Vasyuchkov said.

The proposal has already aroused the ire of western film producers and distributors, who claim the tax would double the cost of distribution. "It is an absolutely ridiculous situation and we hope that they will soon see sense," said one film studio representative yesterday. Others suggested the move would result in greater piracy of films.

## Cinema audiences are only 10 per cent of the levels they were a decade ago

The once-proud Russian film industry, which was accorded great importance in the Soviet era as one of the chief instruments of propaganda, is experiencing a drastic crisis of confidence. Cinema audiences are estimated to have plummeted to only 10 per cent of the levels they were a decade ago.

Most of the film studios at Mosfilm, the Soviet equivalent of Hollywood, now stand idle or are being used by independent producers to make advertisements or pop music videos. Only four films are currently in production compared with more than 50 a year in Mosfilm's glory days.

The growth of other forms of entertainment, such as home videos, has also eroded the cinema's appeal, as has the squeeze on household incomes because of the upheavals in the Russian economy.

As in eastern Europe, western companies operating in Russia have trouble defending intellectual copyrights. Piracy of film, music, computer and book rights is widespread.

In one recent example, Miss Barbara Cartland, the British author of prim romantic novels, was incensed to discover that Russian editions of her books contained erotic drawings.

Piracy is rife in the film industry. Street kiosks sell pirated copies of western films and regional and cable television companies frequently show copied western films. Industry estimates suggest about 64m blank video cassettes were officially imported into Russia last year, compared with only 7,500 pre-recorded cassettes.

# China expects higher crude oil imports

By Tony Walker in Beijing

China expects to be importing 100m tonnes of crude oil annually by early next century, to sustain its continued rapid economic expansion.

Mr Li Boxi, a senior official of the State Development Research Centre, forecast an explosion in demand for crude imports if China failed to bring on stream big new fields. "The situation can hardly change for the better if no new big oil fields are tapped," he was quoted as saying by the official China Daily newspaper.

Mr Li expects China's crude imports to reach 50m tonnes by the end of the century and 100m tonnes by the year 2010. China's planned annual average economic growth rate is 8 per cent to the year 2000.

China, which averaged 13 per cent economic growth for the past two years, became a net importer of crude last year, but Chinese officials are cagey about the volume.

Mr Wang Tao, president of the China National Petroleum Corporation (CNPC), said the "export volume of crude oil was larger than imports" last year. He did not give details. But China has been preparing for a closer oil trading relationship with Gulf states. Mr Li Lanqing, a vice premier, visited the Gulf last year to discuss the possibility of long-term arrangements.

China imported 15.65m tonnes of crude in 1993 and 12.8m tonnes of refined products. Output reached 143.7m tonnes from both onshore and offshore fields but China is struggling to maintain these production levels.

Mr Wang predicted that China's output would rise this year, but the growth would not be sufficient to meet rising demand.

Most of China's oilfields are mature and require substantial investment to maintain production levels.

China is continuing to open onshore and offshore fields to foreign explorers, but results have been disappointing. Hopes are pinned on the Tarim basin region in the country's far west, but exploration and development is at an early stage.

Oil officials say China should cast its net wider in the search for oil.

Last month China announced plans to invest Yn100bn in its outdated petrochemical sector by 2000, with much of the funds coming from abroad, including equity participation. It is negotiating investment deals with several big oil producers and refiners, including Aramco, Saudi Arabia's state oil company, to establish joint venture refineries. China's need for additional refining capacity is underscored by the fact that with 30 per cent of the world's population, it has just 3.7 per cent of world capacity for crude oil processing.

# EU to renew Andean Pact trade benefits

By Raymond Colitt in Quito

The European Union has promised to renew economic assistance and trade benefits to the Andean Pact trade group and endorsed the economic reform and drug fighting efforts of its member countries.

EU representatives of the Andean-European Commission, which met in Quito last week, said the preferential tariff system offered to the four other members of the pact – Colombia, Ecuador, Bolivia and Peru – was likely to be renewed and expanded to include Venezuela.

The special tariff regime, which exempts most exports to Europe from duties, was first granted to the four countries four years ago to help these countries in their fight against drug production and trafficking. Venezuela is being included because it is part of the Andean Pact and faces similar drug problems, according to Mr Juan Pratt, the head of the EU delegation. The final decision by the European Council is expected before the end of the year.

Despite open access to the European market, Andean Pact exports to the EU have not increased or diversified over the past four years. A trade surplus of Ecu1.3bn ($1.6bn) in 1990 turned into a deficit for the pact in 1993.

However, as trade with Europe has declined, trade within the pact has grown substantially. Mr Mario Reyes Chavez, head of the Andean Pact Delegation, says: "Given our limited export potential, it is obvious that the Andean Pact members first turned towards each other for trade. But it is time for us to seriously look towards other trade blocks."

The full re-integration of Peru and a final agreement over the common external tariff still obstructs the path towards a common customs union, initially scheduled to go into effect earlier this year. Trade analysts believe it will be difficult for Peru and Bolivia to conform to the four-tiered tariff structure agreed by the other members.

Yet both Andean and European representatives acknowledged that the key to boosting trade between the two blocs goes beyond offering tariff reductions. Says Mr Pratt, "An integral part of EU efforts in stimulating Andean exports is providing technical and financial assistance." Several "Euro Centres" throughout the region are to promote exports by assisting small and medium-scale entrepreneurs, providing information on ventures or exploring investment and trade opportunities in Europe.

Despite the European union's pledge to renew trade benefits and technical assistance, Ecuador emerged from the meeting with none of its trade worries resolved. EU restrictions on Latin American bananas, which affect Ecuador as the world's largest exporter, were not discussed. As a further blow to its diversification efforts, two weeks ago the US imposed a 50 per cent tariff on the country's rose growing and exporting industry.

WORLD TRADE NEWS DIGEST

## Nine groups seek KL airport job

Malaysia is considering tenders from nine consortia for one of the key contracts at the new Kuala Lumpur international airport being built on a greenfield site south of Kuala Lumpur. The M$2bn ($780m) contract for the main terminal and baggage handling system is the largest single works package at the airport. Companies from South Korea, Japan, Germany, France, the US and Saudi Arabia are among those in the various consortia.

Malaysian officials say no British companies are involved. At one stage an Anglo-Japanese consortium which included Balfour Beatty, Trafalgar House and GEC had been managing the airport project and seemed likely to win a substantial amount of the construction work. But the consortium was disbanded after Malaysia, angered by critical reports about its leaders in the British press, imposed a ban this year on giving government contracts to British companies. The ban was lifted last month. The new airport, with a total price tag of M$9bn-M$12bn, is at present south-east Asia's biggest infrastructure project. *Kieran Cooke, Kuala Lumpur*

## Airbus foresees big demand

Airbus Industrie, the European aircraft-making consortium, yesterday forecast that demand from airlines would exceed 13,000 aircraft by the year 2011 and that it would win about 40 per cent of the orders. The forecast, in the company's monthly newsletter, said demand would be strongest from North American and Asian airlines and just over half of the orders would come from the renewal of existing fleets.

"Of the 8,500 airliners in service at the end of 1991, 83 per cent should be replaced by the year 2011," the company said. Combined with traffic growth, it airlines would need 13,400 new aircraft in the 20-year period from 1992. The assumptions are based on average annual airline traffic growth of 5.4 per cent, with the strongest annual increase, of about 7.4 per cent, coming in the Asia-Pacific region.

The consortium, which groups Aérospatiale of France, Deutsche Aerospace of Germany, British Aerospace and Casa of Spain, said an increasing proportion of orders would be for large wide-bodied aircraft. "Airlines will want aircraft which can handle more than 500 passengers, to cut costs and boost efficiency," said the company. *John Ridding, Paris*

## Japanese plea on textiles

Japanese textile associations have asked the Ministry of International Trade and Industry to curb a flood of cheap textile imports battering the domestic industry. The Japan Spinners' Association and Japan Cotton and Staple Fibre Weavers' Association asked Miti to cut imports under the Multi-Fibre Arrangement (MFA), an international agreement which lets nations impose restrictions if surging imports cause confusion in the market. Japan is working out detailed guidelines for the application of the MFA. Both associations asked for a curb on imports of poplin and broad textiles from China and Indonesia, used to make sheets and shirts, while the spinners also asked for restraint in 20-count cotton yarn imports from China, Indonesia and South Korea. The yarn is used to make poplin and broad cloth.

Last week, China's commercial counsellor in Tokyo was quoted as saying that China might retaliate if Japan imposed unilateral restrictions on textile imports. *Reuter, Tokyo*

## Citroën price cuts in Japan

Citroën's Japanese import unit, Seibu Automobile Sales, will make price cuts of up to 18 per cent on certain models at the higher end of the market to try to increase its market share in Japan. Prices for the luxury XM model will be cut by Y1.1m to Y4.99m ($50,800) while the Xantia model will be marketed at between Y2.99m and Y3.39m. *AFX, Tokyo*

## Contracts

■ Alcatel Submarine Systems, the French-based underwater cable and communications company, yesterday said it had won a $202m contract to supply a submarine telecommunication system which will link Taiwan, the Philippines, Singapore and Malaysia. The company, a subsidiary of Alcatel Cable – itself part of the Alcatel-Alsthom telecoms, engineering and transport group – said the order was part of the Asia Pacific Cable Network, which groups Asian telecoms operators. These include KDD of Japan, and telecoms companies from Hong Kong, Malaysia, Thailand, Singapore, Taiwan, Indonesia and the Philippines. *John Ridding, Paris*

■ Cable & Wireless PLC has signed a contract to assist in the management of the Lebanese telecommunications sector. C&W gave no financial details, but said the management secondment for an initial period of three years would be funded by the World Bank. *AFX, London*

■ Motorola, US telecommunications group, said its Cellular Subscriber Group had been awarded a contract by Vietnam Mobile Services (VMS) to supply portable cellular telephones to Vietnam. Motorola said it would ship the phones, which use Global System for Mobile Communications (GSM) technology, this week. VMS, established in April 1993, operates GSM systems in Hanoi and Ho Chi Minh City, with a capacity of 2,000 and 6,400 phones respectively. *Reuter, Singapore*

■ India will award licences to eight private companies to operate cellular mobile telephones by April 1995. The eight companies will operate cellular phones in Bombay, Calcutta, Delhi and Madras. *Reuter, New Delhi*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# US changes policy over Sinn Féin

By George Graham in Washington and David Owen in London

Pressure on London to clear the way for preliminary talks with Sinn Féin mounted yesterday as the US launched the start of "a normal relationship" with the IRA's political wing.

Mr Al Gore, the US vice-president, informed Mr Gerry Adams, the Sinn Féin president, in a telephone call that the US was ending its official policy of not meeting with Sinn Féin officials.

A senior administration official said: "The way to read this is this is the beginning of a relationship with Sinn Féin, a party with which we've had no official contacts for 25 years."

Mr Gore's telephone call appeared carefully calibrated to raise the contact with Mr Adams to the highest level possible without offending the British government by a meeting at the White House.

Although Mr Adams has been pressing for the last week for a more conspicuous meeting with President Bill Clinton or Mr Gore, administration officials said he had not made any formal request for such a meeting.

Downing Street's response to the telephone call was low-key, with officials emphasising that "the Americans have got to decide for themselves" how they received Mr Adams.

The government is analysing with great care remarks made by the Sinn Féin president during his second visit to the US this year.

London has promised to begin dialogue on how to admit Sinn Féin to political talks on Northern Ireland's future within three months of a permanent end to IRA violence. It is still not convinced that the month-old ceasefire is for good. Senior officials said yesterday that every day which passed "without violence, without killing" gave grounds for optimism.

A first meeting will take place today at the State Department between Mr Adams and Mr John Kornblum, deputy assistant secretary of state for European affairs. Mr Kornblum will be joined by Mr Leon Fuerth, national security adviser to Mr Gore, and Ms Nancy Soderberg, staff director of the White House National Security Council.

In a letter to Mr Adams confirming today's meeting, Mr Anthony Lake, Mr Clinton's principal national security adviser, said the Sinn Féin leader's "role in bringing about the IRA ceasefire was a courageous step forward for peace."

A senior administration official said the letter had been "carefully written" so as "not to get into wordgames" over Mr Adams's refusal to describe the ceasefire as "permanent."

Yesterday's move came as Mr Adams prepared for a high-profile television debate with Mr Ken Maginnis, the Ulster Unionist MP for Fermanagh and South Tyrone.

# M0 growth accelerates abruptly

By Philip Coggan, Economics Correspondent

One of the UK government's key indicators of inflation surged in September, raising fears yesterday that interest rates may have to be increased again before the end of 1994.

The annual rate of growth of M0, the narrow measure of the money supply, jumped to a seasonally adjusted 7.1 per cent in September from 6.3 per cent in August, according to figures released by the Bank of England yesterday.

M0 is seen as a rough guide to activity in the high street, since greater retail spending creates an extra demand for cash. The surge in M0 may indicate that consumer spending is still buoyant, although the government is keen for the recovery to focus on exports and investment. Mr Eddie George, the governor of the Bank of England, yesterday said that he was looking for more moderate growth in consumer spending "to make room for expansion in other sectors of the economy".

Referring to last month's increase of half a percentage point in interest rates, Mr George added that "it will be some time before we can be sure that the move we made was necessary or sufficient".

Annual M0 growth has consistently stayed outside the government's 0-4 per cent monitoring range and Mr George expressed concern about the pace of its growth in the minutes of his June monetary meeting with Mr Kenneth Clarke, the chancellor. Since then, M0 growth had shown signs of slowing down, until the publication of yesterday's figure.

Analysts pointed out, however, that the sudden jump in M0 last month may have been caused by a statistical blip. The change in the annual rate of growth of notes and coins, the main component of M0, was relatively modest, showing a rise from 6.8 per cent in August to 7 per cent in September.

Mr Simon Briscoe, UK economist at S.G. Warburg Securities, pointed out that the six month annualised growth rate of notes-and-coins element actually fell – from 7.3 to 7.1 per cent – between August and September.

What caused the monetary aggregate to jump so sharply was the other component of M0: banks' operational deposits. This volatile statistic rose by 38 per cent between August and September, having fallen 48 per cent between July and August.

On a seasonally adjusted basis, M0 rose by 1 per cent between August and September, but unadjusted it fell by 0.3 per cent. This may indicate a problem with the seasonal adjustment process, said Mr Nick Parsons, chief economist in London with Canadian Imperial Bank of Commerce.

Tony Blair (left) and Gordon Brown in Blackpool — Ashley Ashwood

# Blair to counter infighting

By Philip Stephens and Kevin Brown

Mr Tony Blair will respond today to another bout of Labour infighting by warning its conference in Blackpool, Lancashire, that the party must press ahead with its modernisation programme.

His debut as party leader at the annual conference – previewed by aides as "bold and uncompromising" – will follow a renewed attempt by the leaders of the main trade unions to set the agenda for Labour's economic strategy.

Mr Blair will tell delegates that "new ideas, new thinking and new Labour" are essential for the renewal of Britain. Urging party unity to win the next general election, he will add: "I want you with me in our task of renewal. I want you with me head and heart".

During a sometimes irritable start to the week-long conference, Mr John Edmonds and Mr Bill Morris, leaders respectively of the GMB and the TGWU general workers unions, led a series of calls for the party to fix its proposed minimum wage at half male median earnings.

**The Labour leadership is preparing to back a radical shake-up of the benefit system for the unemployed and low-paid alongside the full integration of the tax and benefits system for the retired.**

**Mr Gordon Brown, shadow chancellor, and Mr Donald Dewar, social security spokesman, indicated a Labour government would preserve the universal principle for child benefit and the state pension.**

**But the leadership is keeping open the option – raised in its social justice commission's report – of extending the taxation of universal benefits.**

**It is understood that many of the commission's recommendations focus on ways to remove poverty traps which discourage the unemployed from taking part-time or low-paid jobs.**

Mr Blair, however, insisted that while the principle of a national minimum rate for all workers was sacrosanct, the details of its implementation would be fixed by the party's Economic Commission. He made it clear the system would have to be introduced flexibly, with exemptions for young people, if it was not to damage employment.

In a thinly veiled attack on the economic policies spelt out at the conference by Mr Gordon Brown, the opposition chancellor, Mr Edmonds also demanded that Labour fix a firm target for full employment.

The decision by the union leaders to flex their political muscle over pay and employment coincided with signs of renewed disquiet on the left of the party over Mr Blair's insistence that the party's tax plans will not hit middle-income earners.

Mr John Prescott, the deputy leader, is thought to be concerned that the present stance could leave the party trapped by a pre-election cut in income tax rates by the government. In those circumstances Labour might be forced to abandon either its pledge not to raise taxes on middle-income earners or to drop key spending pledges.

Mr Brown used his conference appearance to launch a fierce attack on the "tax privileges" which he said subsidised "boardroom privilege". Reaffirming that a Labour government would clamp down on executive share options and tighten up residency rules for the rich, he said Labour would "rewrite the tax rules for the undeserving rich".

He forecast: "The real divide at the next election will be between unfair taxation under the Tories and, under Labour, fair taxation based on the progressive principle."

But the party leadership suffered another setback when the annual poll for its national executive committee saw the election of two leftwing MPs – Ms Diane Abbott and Mr Dennis Skinner. Mr Blair retains a commanding majority on the policymaking body but two of his strongest supporters – Ms Marjorie Mowlam and Mr Chris Smith – failed to win a place.

In what may be the most important speech of his political life, Mr Blair will tell the party that the ditching of traditional policies does not mark a rejection of its core values. He will set the party's central ambition as the spread of opportunity and social justice.

# Final bidders for Crest selected

By Norma Cohen

The London Stock Exchange is likely to lose its lucrative role in equities settlement when the new Crest computerised settlement system is in place.

Yesterday the Bank of England announced that Swift, the international bank payments messaging system, and a consortium comprising Syntegra, a BT subsidiary, and Thomson Financial Services were the two finalists in the competition to become the network provider for Crest.

The successful bidder will carry electronic settlement and other messages to and from Crest and its users. The stock exchange has withdrawn its own bid.

Following the collapse of the exchange's Taurus project for paperless share settlement, the Bank of England took responsibility for developing a more modest, less expensive system to speed share settlement, Crest. The stock exchange, which currently has sole responsibility for share settlement, has been seeking a role for itself since then but earlier this year the bank rejected its request to purchase a 30 per cent stake in Crest.

If the stock exchange had been successful in its bid to become network provider, it could have secured a source of income to replace its current earnings from securities settlement. In the year ended March 31, these were £55.8m, roughly a quarter of its revenues.

A key factor in its decision to withdraw its bid is thought to be the bank's insistence that it could not rely on its Sequal system which confirms individual share transactions.

Sequal does not have the capacity to give and accept messages from all international participants in the London market and would have required significant investment in order to adapt to the needs of Crest.

# Amerada Hess finds oil at the frontier

By Robert Corzine

Optimism about the UK's most promising frontier oil and gas area west of Shetland was boosted yesterday when Amerada Hess, the US oil company, reported that it had found oil at an exploration well close to British Petroleum's Schiehallion discovery.

The latest well, 3 kilometres south of BP's discovery, confirms that the Schiehallion reservoir extends into neighbouring exploration blocks. BP has estimated Schiehallion's recoverable oil reserves at 250m-500m barrels.

Amerada Hess, whose partners include Aran Energy, OMV and Murphy Petroleum, said it will hold talks with BP and its partner, Shell, on ways to "appraise the technical and commercial potential of the field as quickly as possible".

Amerada Hess also announced that it had bought Esso's 15 per cent share in the nearby Clair field – a huge, 3bn barrel reservoir whose complex geology and remote location has so far defied development.

The latest find at Schiehallion is expected to encourage other oil companies with acreage in the area to accelerate exploration programmes.

Last week 10 companies said they were looking at the possibility of an integrated development scheme which might improve the economic viability of a number of west of Shetland projects.

The deep water and bad weather conditions in the area and the absence of established infrastructure, such as pipelines, makes development of the oil and gas resources relatively risky. The economics of some projects could also be undermined by the relatively low quality of the oil found so far, and the prospect that it would sell at a discount to the benchmark Brent Blend.

Wood Mackenzie, the Edinburgh-based consultants, said long-term development of the west of Shetland oilfields may justify the construction of pipelines. But it has predicted a sharp increase in the use of shuttle tankers to take oil from the floating production vessels likely to be used in the first phases of production to shore terminals, a development which could raise environmental concerns.

● Chevron yesterday announced that Ninian has become the third North Sea oilfield to produce more than 1bn barrels. The others are Forties and Brent.

# Food price wars gather momentum

By Neil Buckley

Two supermarket chains joined the latest skirmish in the food price wars yesterday as a report from Verdict, the research group, said retailers faced a disappointing Christmas and years of slow growth.

Safeway, the superstore chain owned by Argyll, the UK's third-largest food retailing group, launched a £7m advertising campaign called Lightening the Load to highlight services such as bag-packing and carry-out services, wide aisles, baby-changing facilities and its refund and replace guarantee scheme.

The campaign is designed to support Safeway's new Price Watch initiative – a guarantee to customers that they can buy products at prices competitive with those offered by its main rivals such as Sainsbury and Tesco. Independent pricing research suggests that customers see Safeways as expensive.

Shares in Argyll fell 5p to 270p, and Asda shares closed down 3¼p at 62¼p. Shares in Sainsbury, however, rose 2p to 402p on news of its £205m investment in the US supermarket chain Giant Food.

Last month Safeways introduced a range of 100 basic own-label goods at very low prices, called Safeway Savers – similar to the Value range launched last year by Tesco, the UK's second-largest food retailer.

Also yesterday, Asda, the fourth-largest grocery retailer, announced a No Nonsense price freeze on 7,000 grocery and non-food items until at least January.

Safeway's and Asda's moves follow the nationwide launch last week of a New Deal pricing initiative from Tesco.

Tested initially in north-west England, the campaign involves price cuts on 100 own-label and branded goods, supported by a £1m advertising campaign.

Fierce price competition between supermarkets shows little sign of abating. It began almost 18 months ago with the Price Check campaign launched by Gateway – renamed Somerfield – in response to the spread of discount retailers and the increasing saturation of the grocery market. Shoprite, the discount retailer which operates mainly in Scotland, yesterday issued its second profits warning in four months.

In its annual five-year retailing forecast, Retailing 1998, Verdict predicts that price competition will remain "intense" between food retailers for the foreseeable future.

It also warns that retail trading will "get worse before it gets better" and that annual retail sales growth will remain below the almost 6 per cent recorded in 1993.

*Verdict on Retailing 1998. Verdict, 112 High Holborn, London WC1V 6JS. £950*

Sainsbury buys stake in Giant, Page 19
Shoprite warning, Page 28

## Britain in brief

### MPs bring forward gas investigation

The Commons trade and industry committee is to bring forward an investigation into the government's plans to deregulate the gas market amid MPs' concerns over the role of the regulator.

Ms Clare Spottiswoode, Ofgas director-general, is lobbying ministers to meet the deadline for deregulation, due to be phased in from 1996, by including a new gas bill in the forthcoming parliamentary session.

The all-party Commons committee is to launch its investigation into the gas market immediately after the party conferences come to a close at the end of next week. It plans to publish a report by the end of the year.

### Judge to rule on Gooda Names

A High Court judge will today deliver judgment in the case brought by more than 3,000 Lloyd's Names against the Gooda Walker insurance syndicates. It is widely expected that the judge will rule in favour of the Names, who are suing Gooda Walker, a members' agency and managing agency in the insurance market, for negligence. They are claiming £629m in the largest civil action ever heard before an English court.

### Investors 'can price' nuclear risks

Investors would be able to put a price on nuclear risks if the government decided to privatise the UK nuclear power industry, according to the US financial advisers to Nuclear Electric, the state-owned utility.

Morgan Stanley, the Wall Street investment firm, says in a report that a privatised Nuclear Electric would be compared to the highly rated low-cost US nuclear utilities, thanks to the strong improvements in performance the company has recently achieved.

Morgan Stanley are advising Nuclear Electric during the current government review of nuclear power.

● Prof Stephen Littlechild, electricity industry regulator, is expected later this week to deliver a blow to Nuclear Electric, the state power generator, by asking the government to consider splitting it up.

### Hwang bros in talks on London site

Hong Kong property investors George and Victor Hwang are in discussions which could lead to their involvement in controversial plans to turn County Hall in London, once home to the Greater London Council, into a hotel and leisure complex.

The Hwang brothers, who bought Battersea Power Station, the London landmark, last year, are talking to Mr Takashi Shirayama, the Japanese investor whose company's £60m offer for the main riverside building was accepted by the government two years ago.

A spokesman for Shirayama said yesterday that the company had no intention of selling its interest.

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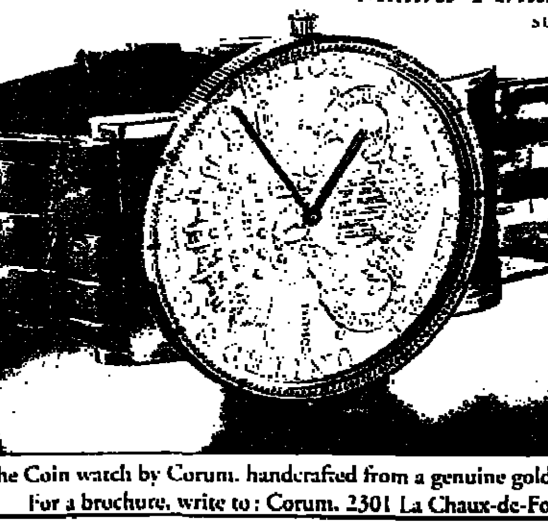
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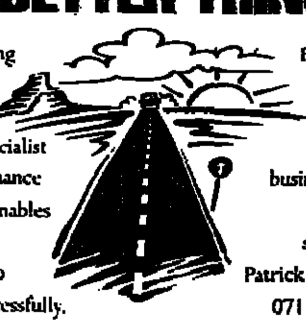
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For more than 150 years we have been making timepieces for men and women who see beyond ordinary time. Einstein owned a watch made by us *fig. 1*, so did Tchaikovsky, Wagner, Marie Curie and Charlotte Brontë. Each of them – whether scientist, musician or writer – had the rare gift of being able to exploit time as a creative element in their work.

Today we are still recognized as the only watchmakers whose timepieces adequately convey a sense of outstanding personal achievement. We can rise to your greatest occasion with a total of 33 horological complications – far beyond the capabilities of any other watchmaker. Our Calibre 89, the most complicated portable timepiece ever built *fig. 2*, expresses the full scope of time: astronomical time – from a star chart geared to the apparent movement of the heavens, to the times of sunrise and sunset; seasonal time, sidereal time and the equation of time *fig. 3*; long time in the 400-year cycle of the Gregorian calendar; short time with a split-seconds chronograph; the sound of time in a Grand Strike, chiming the hours and quarters, in passing, on a Westminster carillon; spiritual time in the date of Easter; and time that escapes gravity in the tourbillon escapement.

If you find the Calibre 89 a little inconvenient for everyday use, our watchmakers have brought together the more essential complications in a number of wristwatches. You can be assured that each represents the finest watchmaking in the world.

You may find your most treasured possession in the handsome tonneau-shaped, perpetual-calendar watch *fig. 4*. The unique combination of a fly-back dates-hand showing the progression of the month, and a minute-repeater, is a refinement that took us about four years to develop.

You will appreciate that there are no half measures in complicated watchmaking. We are building precision timekeeping instruments that you will expect to perform faithfully for a century or more. In our self-winding, perpetual-calendar wristwatches *fig. 5*, our own design and superlative craftsmanship ensure that the calendar mechanism absorbs an infinitesimal amount of power as it smoothly changes the day, date and month, records the quarters of the day and the leap-year cycle. The moon-phase in our perpetual calendars is extremely precise, taking 122 years and 45 days to accumulate the hardly discernible variation of a single day.

Our perpetual-calendar and chronograph combination *fig. 6* finds particular favour among collectors who enjoy the finer points of mechanical watchmaking. Through the sapphire-crystal caseback, you can admire the exquisite hand-finish of our movements and bring into play the precisely coordinated actions of the column-wheel, levers and gears *fig. 7*.

Impeccable workmanship is taken for granted by those who wear our watches. But if you choose one of the half-dozen or so slim, self-winding, perpetual-calendar repeaters *fig. 8* that we complete each year, you can expect much more. We have encapsulated in our most sophisticated wristwatch the ancient and authentic sound of time. Celebrate a moment – any moment – by making the mechanism ring the hours, quarters and minutes with the pure, clear resonance that only we have been able to achieve in a minute-repeater.

Those who consider a watch is just a watch, so long as it tells the time, will be gratified to learn that in this elegant wristwatch *fig. 9*, time is told both by a minute-repeater and by an observatory-rated chronometer. In it moves the most ingenious compensation device known to horological engineering. The rotating tourbillon cage literally absolves the watch's regulator from the laws of gravity – removing one of the last obstacles to the final frontier of mechanical precision.

But if you seek that extra dimension to time, to mark your achievement, to inspire your creativity or simply to enjoy sublime watchmaking, you will almost certainly wear one of our timepieces one day. You will then come to recognize the touch of the world's finest watchmakers *fig. 10*, and know that the name on the dial can only be Patek Philippe.


*fig. 1: Einstein's daily inspiration.*

*fig. 2: Time on a cosmic scale in the Calibre 89 – the most complicated portable timepiece.*

*fig. 3: In the Calibre 89, a symbol of the sun moves through the equinoxes and seasons against a revolving disc of stars.*

*fig. 4: Ref. 5013. Self-winding, minute-repeating wristwatch with perpetual calendar, moon-phase and a retrograde dates-hand, which flies back to the beginning of the month after reaching the 28th, 29th, 30th or 31st day. In Patek Philippe wristwatches, the buckle and the hidden pins that secure the strap are of gold.*

*fig. 5: Ref. 3940. The finish on the case and the bracelet reflects the perfect functioning of Patek Philippe's ultra-thin (3.75 mm), self-winding, perpetual-calendar wristwatch with moonphase.*

*fig. 6: Ref. 3970. The perpetual-calendar chronograph...*

*fig. 7: ...displaying the poetry of traditional hand-finishing.*

*fig. 8: Ref. 3974. The confidence of a smoothly functioning perpetual calendar, and the pleasure of hearing the time, combined in one of Patek Philippe's most sophisticated wristwatches.*

*fig. 9: Ref. 3939. A minute-repeater which is also a rated chronometer. A tourbillon device cancels out the effects of gravity.*

*fig. 10: Ref. 3919. The gentleman's classic wristwatch. One of the many introductions to Patek Philippe's dimensions of time.*

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# Hard graft for software

**Richard Gourlay** looks at various ways computer entrepreneurs have raised elusive early-stage finance

Never has the application of software made a bigger impact on business *and domestic life than in* the 1990s. But surprisingly few software houses in the UK manage to start up, raise finance and build companies that grow and survive.

Banks do not like them: they are too dependent on people, and assets such as debtors tend to evaporate when the software company can no *longer provide service support.* Start-ups tend not to be considered by most venture capitalists, and even finance for later-stage development is scarce.

Bitter experience suggests that most venture funds have not done well in this area. The pace of change means it is not uncommon for venture capitalists to require the business to be sold just when the software house needs to spend more money developing a next gen*eration or new product.*

"There is the first start-up funding, when a group of individuals get together, which may not be fantastically large," says Philip Purslow, managing director of Birmingham-based Simtel, which makes pre-production software for industrial processes. "You then sell and develop, sell and develop – but to go faster you need more finance."

A sine qua non for funding at any stage is a good business plan – one *that includes a clear idea of the* software to be developed, the market and the company's competitive position.

Take Option Systems Limited, a Leicester-based maker of software that helps customers such as Mizuno, the sports goods company, Pepe Jeans and Hi-Tec shoes manage their international distribution.

When Terry Forsey and partners launched OSL in 1991, they had considerable knowledge of their particular niche – software for the textile industry to help customers manage the supply of different shapes, colours and sizes of the same item.

Forsey's previous company, Universal CMS, had built sales of £12m with the help of a government software development grant and some development capital. Forsey left when the board decided to freeze further research and development expenditure on the product – a decision he says was partly responsible for Universal CMS going out of *business in 1991.*

When he took the idea of a new company producing similar software to the bank, he had a product and a clearly-defined set of customers in a niche market. OSL was able to get off the ground with a mixture of directors' borrowings, backed by personal guarantees, and a bank *loan supported by the small com*pany loan guarantee scheme.

What is even more unusual is that OSL has sold to 14 companies in 34 sites around Europe using internally-generated resources. It has avoided the need to raise external funds partly because it is using distributors who bear some of the risk and cost and partly because OSL has found and concentrated on a niche market.

OSL has also adopted a novel way *of ensuring that its customers get* the product upgrades they want and not what the supplier thinks they want. It has handed over much of the authority to spend the R&D budget to a user group made up of its customers.

"Inherent in the culture of the business is the idea that you have to keep developing the product," Forsey says. Instead of growth based on spurts of development spending – a process that can be *difficult to finance – development* becomes continuous, he says.

Rather than try to work on an entirely new product, OSL is now using the strong cash flow from £1.6m of sales to push into new geographical markets.

Purslow says there are few companies that can occupy a small niche market like this any more. Most software companies must operate in a world where their market is rapidly changing. It is this that makes funding of the early stage of a software company's life so risky, he says.

Simtel's early financing also had government support. Purslow's eight years of developing and marketing software suggest that at an early stage software entrepreneurs have to be as knowledgeable about sources of grant aid as they are about their market and product.

When Purslow approached Derek Harris, managing director of Bir*mingham Technology Venture Capi*tal, he had no product – just an idea that he could improve pre-production systems that help manufacturers design and schedule production and distribution.

Between the three original partners, who put up £60,000, and Birmingham Technology Venture Capi*tal, Simtel raised about £150,000 in* start-up funds.

It then went down a familiar path of supplementing income from its own software with the sale of bought-in Cad-Cam products. But when it needed to develop more quickly, Purslow started looking to the Department of Trade and Industry for grants. Over three years the DTI supplied about £300,000 – but only after Simtel had found two collaborative partners.

"*Since then we have developed* from national schemes to European funding and the consortiums have become bigger," says Purslow.

Simtel's last project, funded from the EU's Eureka Famos and Brite Euram funds, cost £6m and was done in collaboration with seven partners in four countries. Now breaking even on sales of about £2m, Simtel is moving to a stage where it will limit its development and place more emphasis on com*mercial exploitation of the software* it has developed.

QSP, now a quoted company making software for integrated financial control systems, also turned to the DTI for a job creation grant early in its life. But it was also an exponent of the beg-and-borrow school of early fundraising. Alan Mordain, its founder, found three companies which agreed to let him use their IBM mainframes over evenings and weekends for the early development work.

Only after a couple of years, when the company had about 16 customers, did Mordain decide QSP needed a mainframe of its own. Then it brought in venture capitalists Advent Limited.

Leaning on customers, or more likely future customers, is another way for software houses to finance their development. The customer pays for part of the development, takes the product at a concessionary rate once it is developed, but leaves the right to develop and market the product with the software *house.*

A variant of this is the route taken by the Software Partnership Limited, which produces specialist banking software and was recently sold to Deluxe Data Systems, a subsidiary of the large US cheque printer, Deluxe Corp. To finance its early days, Software Partnership's three partners became consultants.

Howard Hanson, a co-founder and now research and new technology director for Deluxe, said this did not simply cross-subsidise the development of generic software products it was later able to market. By working closely with the bank, the company was also able to discover exactly what the customer wanted and what the market was failing to *supply.*

These alternative solutions to early-stage funding leave most UK venture capitalists searching for a role. While more are prepared to enter at a later stage, all but those with the most recent experience in the software industry seem to find the pace of change too fast.

But, according to Brian Reynolds, a founder of Microfocus, one of the UK's most successful software companies, finding the initial finance was not the most difficult part. He did it by borrowing £5,000 from the bank to buy a computer on which he developed enough of a product to get backing from 3i two years later.

What was difficult, Reynolds says, was building a company in the UK and the US. "All the main competitors are in the US and you have to absorb the way they think, act and market," he says. This is an extremely difficult and hard grind, *he has found.*

But he is optimistic that new communications, like video-conferencing, are breaking these barriers *down. "It is a good time for soft*ware companies to start up," he says.

Colin Beere

Continuous development: Terry Forsey (left) and Tony Parkinson of Option Systems

# One step ahead of the accountant

## Small companies can control the cost of their annual audit if they prepare the books in advance

For four years, John Hudson turned up for the annual audit of a family-controlled chain of garages to discover that its books were not ready.

*Faced with the same lack of* preparation in the fifth year, Hudson turned on his heel and walked out, threatening to return after three months when he next had staff available.

Hudson, who has moved on and is now a partner at Accountants Baker Tilly, says the client *quickly got the message. Two* days later the books were ready and the audit was able to progress.

But he says all too often medium-sized companies only focus on their annual audit when the auditors are on the doorstep.

A surprising number of businesses do not keep accurate books, recognising that they only need up-to-date cash books and debtor books to survive, he says. "The real *incentive to get moving* is when the auditors are *sitting* there," says Hudson.

The smallest companies have now fallen out of the annual audit net. Since last November's budget, those with sales of less than £90,000 are no longer required to produce external verification of accounts and most companies with sales between this figure and £350,000 only need an independent accountant's report.

But larger small companies with March year-ends should by now have agreed with their auditors the exact timing and scope of this year's exercise. Since accountants are selling time, the best way to control costs is for clients to become involved in planning at an early stage.

Lis Stalker, senior manager at Arram Berlyn Gardner, a medium-sized accounting firm, agrees that preparation ahead of the auditors' arrival is a crucial cost-saver. Her firm has compiled a list of ways to control audit costs.

● Before starting an audit, agree a timetable. By agreeing this early, there is more chance that *the auditors familiar with your* business will be available.

Clients who demand an "*express job" because the bank* manager is expecting draft accounts the following week will tend to settle for over-qualified – *and therefore expensive* – auditing staff.

● Ensure the books are ready. By planning with the auditor, you can discuss which schedules, books and records will be required.

It is also worth establishing which non-financial papers will be needed.

● Capitalise on the knowledge that your auditor has of your business. A good auditor may well have ideas to improve and update management systems and ways to make the next audit easier.

Hudson goes further. By adopting an analytical review approach to the audit, as opposed to a "tick and bash" vouching audit approach, the auditor is *forced to become conversant* with the way the business works. This knowledge becomes a valuable resource if auditors are properly debriefed.

● Keep the auditor informed. "It is always disconcerting to visit a client and find that no one has thought to tell you that branches have been opened during the year, the company has set up an employee profit-sharing scheme or a new stock-pricing system has been put in place," says *Stalker.* Surprises can drastically affect the scope and level of work required for an audit opinion and *the level of fees.*

Having agreed the timetable, it is important to stick to it. Too often the auditors get involved in preparatory work before they start the audit.

The extra charges which appear on the fee can cause bad blood when the client questions the bill.

Given that the auditors probably understand the business more than anyone else outside the company, including the bank manager and the lawyer, unnecessary conflict over the audit fee should be avoided.

**Richard Gourlay**


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# PEOPLE

## Greene King brews new roles for chairman and chief executive

Greene King, the East Anglian brewer, has split the roles of chairman and chief executive. Simon Redman, who has held both posts since 1990, has become interim non-executive chairman until a successor is appointed early 1995. He will then leave the company.

Tim Bridge, right, managing director since 1990 and descended from the King family, has become chief executive. "The board believes the preferred structure is a non-executive chairman and chief executive," Bridge said.

The jobs have been split before. Most recently, Redman was chief executive and Bridge's father John was chairman until 1990. "There is no strategic change for the group," Bridge added.

*Redman will* have more than two years left of his three-year contract when he leaves next year. He earned £118,000 in salary and pension last year and his departure terms will be set later.

Under Redman's stewardship Greene King has grown steadily but has also suffered a couple of setbacks. Most notably, *its hostile* takeover bid for Morland, the Thames Valley

brewer, failed in 1992. Greene King sold its 28.8 per cent stake in Morland last month for £28.7m but incurred several million pounds in costs for the abortive bid.

Bridge said decisions such as the Morland bid had been made by the whole board and were not a factor in yesterday's management changes.

The company is looking for a non-executive chairman with "a known profile in the City and financial press," but it has "an open mind" whether the successful candidate comes from manufacturing or retailing.

Bridge, 45, joined Greene King in 1970 and has held a variety of posts. No other Bridges are currently in the company, although members of various families connected to the founders hold some 15 per cent of the equity.

The Redmans have been linked to the group since 1961 when Greene King bought Wells and Winch, the Biggleswade brewer. Simon's cousin Tim relinquished executive duties earlier this year but will remain a Greene King non-executive director for three years.

## Coopers partner to EDS

After 23 years with Coopers & Lybrand, John Pendlebury has made the geographical and cultural leap to Electronic Data Systems, where he will be leading the US company's 400-strong European consulting practice.

Now 50, he has been a managing partner at Coopers for the past few years. *He will* be based in Brussels with an office in the company's UK headquarters at Stockley Park, west London.

Pendlebury expects to spend much of his time on the road working with clients and seeking out talented individuals and companies to help fulfill ambitious plans for the consultancy division.

EDS says Pendlebury will "direct an aggressive campaign dramatically expanding the company's management consulting presence and market share throughout Europe".

EDS also mentions "aggressive hiring," although an unaggressive Pendlebury said yesterday he hoped other consultancies would not take fright at such language.

An engineer with a first degree and doctorate from Cambridge University, Pendlebury's first job was with English Electric, now absorbed into GEC.

He worked for Kodak – learning accountancy at night school – before joining Coopers in the early 1970s. He worked for Coopers in the US, middle east and Russia.

EDS, the computing services arm of General Motors of the US, appealed to Pendlebury because of its global presence and strong technology base.

He will take the lead in shaping the consultancy around the themes of business process re-engineering, change management and strategic planning.

■ David Thorpe has been appointed managing director of EDS' public sector division, with overall responsibility for developing the company's business with central government and government agencies.

He joins EDS from the board of Bull Information Systems UK, where he was managing director of Bull's largest operating unit, the systems integration and services division.

## Leutwiler joins Warburg

Fritz Leutwiler, 70, a former chairman of the Bank for International Settlements and the Swiss National Bank, has been appointed an adviser to S G Warburg, Britain's biggest merchant banking group.

Leutwiler, who is a vice chairman of Nestle and chairman of Leutwiler & Partners, is one of two new advisers to Warburg. Professor Helmut Sihler, 64, a former chief executive of Henkel and ex-president of the Federation of the German Chemical Industry, has also been appointed a member of Warburg's growing list of advisers.

■ Sir Alistair Grant, chairman of the Argyll group since 1988, is appointed a non-executive director of SCOTTISH & NEWCASTLE.

■ Sir Clive Whitmore, former *permanent under-secretary of* state at the Home Office, and Fiona Harrison, chief executive of Coats Viyella's fashion retail division, join the board of BOOTS as non-executive directors.

## Marsh bounces back and finds home with Toyota

It has not taken long for motor trade veteran Alan Marsh to bounce back out of his early retirement from Inchcape in May.

Marsh, 57, with 35 years experience of the car retailing scene, is becoming the first non-Japanese board member of Toyota Motor Europe Marketing and Engineering (TMME), the Brussels-based entity which controls most of the Japanese car giant's European activities, except actual car making.

As vice-chairman of the TMME board, Marsh will be in direct charge of Toyota's European marketing activities.

That makes it almost business as usual for Marsh. He is a past chairman of Toyota (GB) and had been running Inchcape's Toyota vehicle distribution businesses world-wide until the Inchcape board streamlining.

The appointment is an indication of Japan's largest car maker's commitment to place the running of major regional operations in the hands of non-Japanese managers. He is unlikely to be the last European board appointment.

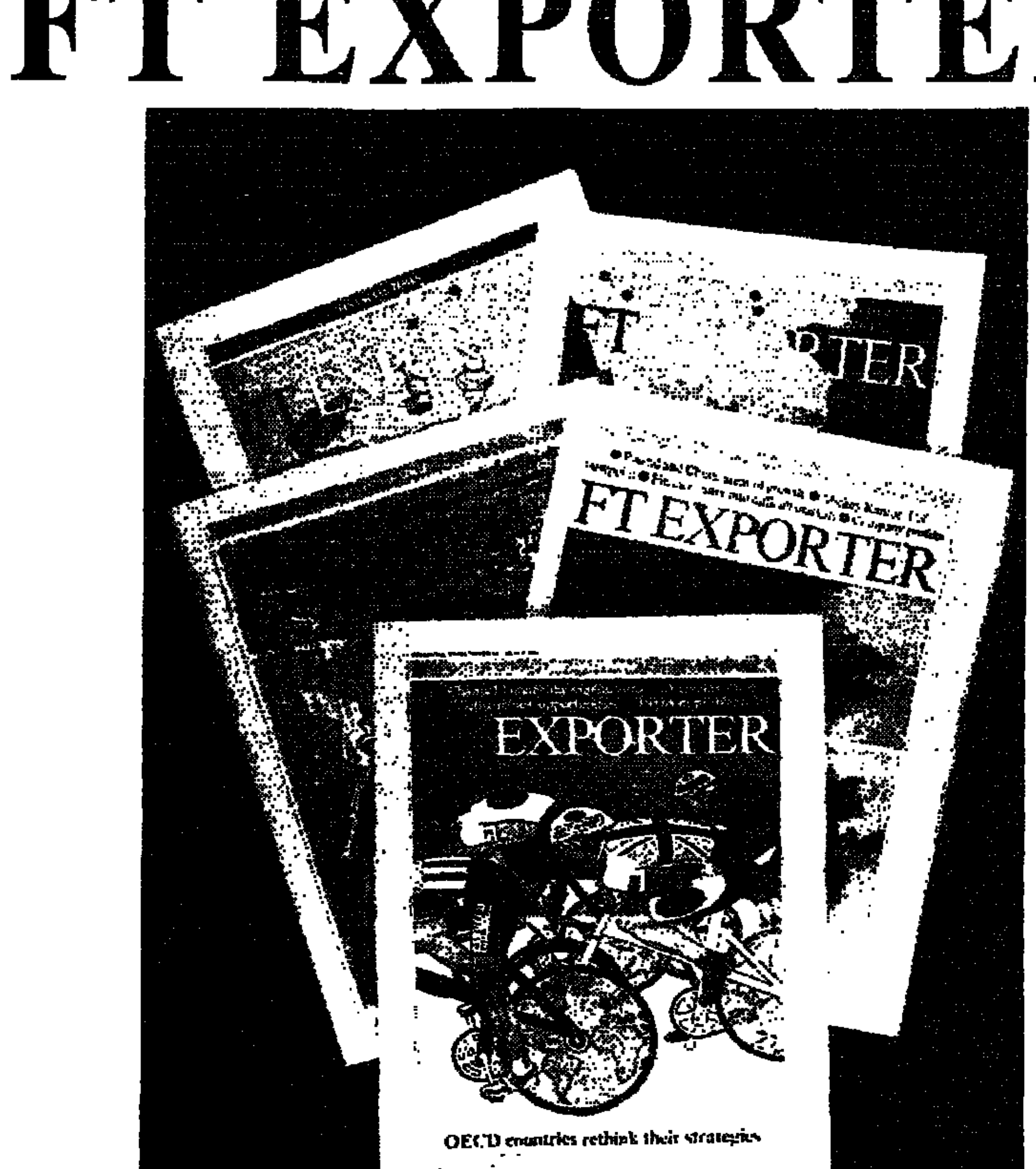
Michael Walsh, 44, who has helped build Ogilvy & Mather UK into Britain's second biggest advertising agency, has been made chief executive of O&M's European operations.

Harry Reid, 49, who has been the London-based *chairman of the group's European* operations since 1990, is taking up a new role as chief operating officer of O&M Worldwide, a subsidiary of WPP. He will continue to be based in London.

Walsh, who has been with O&M for 11 years, will work with Reimer Thedens, 45, vice chairman of Europe since 1992, to jointly run all Ogilvy's European operations, encompassing the region's fourth largest agency network *and its largest direct marketing* network. Thedens, heavily involved in building up the latter part of Ogilvy's business, adds responsibility for all key financial and personnel issues in his new role.

FINANCIAL TIMES

# FT EXPORTER

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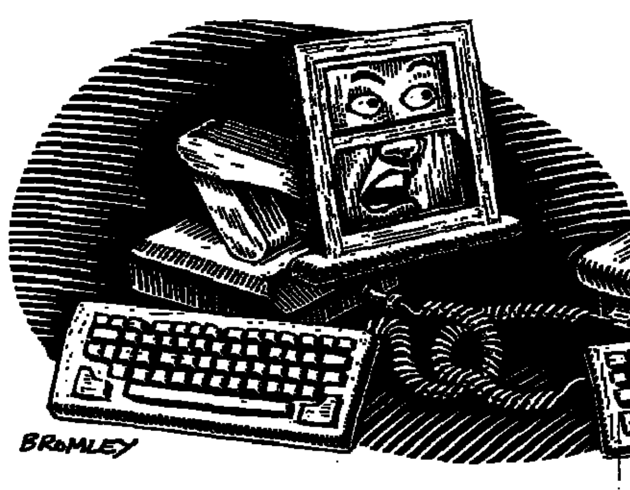
# TECHNOLOGY

## IBM is taking on the might of Microsoft, write Louise Kehoe and Geof Wheelwright

# Breaking windows




International Business Machines aims to "shatter Windows" with the launch next week (October 11) of Warp, a completely overhauled version of OS/2, its personal computer operating system software.

Microsoft's Windows dominates the world market for PC operating systems – the software that controls the basic functions of a computer. An estimated 60m PCs have Windows installed, while IBM's OS/2 comes a distant second with about 6m copies in use.

Warp may, however, prove to be a potent challenger to the Microsoft industry standard. "There is no question, Warp is technologically superior to Windows," says Kari Wong, of Dataquest, a US market research firm.

While the current versions of Windows are 16-bit operating systems – they process data in 16-bit chunks – OS/2 is a 32-bit operating system that can take full advantage of the power of the latest microprocessors, he points out. For PC users, this means applications will run faster, fetching data from a disk drive will take fewer seconds, and video on a PC screen will be sharper.

Another advantage of Warp is that it will fit comfortably into 4MB of memory, the standard configuration of most PCs sold today, says Wong.

With the introduction of Warp, IBM is seizing a rare opportunity to try to upstage the software market leader. Microsoft was to have launched a 32-bit version of Windows, popularly known as by its code name Chicago, towards the end of last year but the launch has been repeatedly postponed and the company now says that the software, renamed Windows 95, will not appear until early next year.

"Arrive in Chicago earlier than expected," say IBM advertisements for OS/2. "There is no need to wait in a holding pattern for a 32-bit operating system." IBM's wisecracks may raise some laughs among computer buffs, but the biggest challenge facing Big Blue as it tries to break the Windows hold on the PC market is that familiarity may have more appeal to the average PC user than technological superiority.

An April survey of 10,500 PC users conducted by Computer Intelligence Infocorp, a market research group, found that 23 per cent had never heard of OS/2, although the first version was introduced seven years ago. Only 4 per cent did not know of Microsoft's Windows.

IBM plans a $50m (£31.6m) advertising campaign for OS/2 over the next three months, and the company is using many of its senior executives to seek converts to the product worldwide. Still, operating system software is a hard sell.

In an attempt to give Warp broader appeal, IBM is packaging the new version of OS/2 with a bundle of applications designed to lure new customers. Topping the list is a set of programs that will give instant access to the Internet, the global computer network.

"The information superhighway is the hottest topic among PC users today, yet many people really have no idea what it is or how to get on it," says Wally Casey, IBM personal software products director of marketing. There are a million new users logging on to the Internet every month, but about 400,000 give up because it is too hard to use, he says.

IBM plans to tap into the excitement surrounding the Internet by providing easy-to-use software for a wide range of Internet software. The package will turn the average PC user into a fully-fledged "Net surfer".

"We aim to make OS/2 synonymous with the information superhighway," says Casey. Warp users will get immediate access to the Internet via the Advantis network in the US and other IBM networks worldwide. After 10 free hours of access, 40 hours of use a month will cost about $25.

"The IBM information highway will have 'on-ramps' [local access] available in major metropolitan centres worldwide," says Casey. IBM already has telephone lines established in 11 countries to handle the 10m users it counts on signing up in the next year.

Building on another market trend, IBM will include multimedia software that enables users of PCs with the relevant add-on circuit boards to watch TV on the PC screen, host a video conference, or display photographs stored on disk using Kodak's new PhotoCD technology. For less ambitious PC users, a suite of office applications is included with Warp as well as some games.

The US list price for Warp is expected to be $80, but retail discounts will probably bring it below $50. And existing OS/2 users can expect to get an upgrade for $25 or less. Microsoft's Chicago is also expected to come packed with extra programs, including Internet software, although the company has yet to provide details or prices.

OS/2 still faces tough hurdles. The biggest may be the wide perception that there are few third-party applications such as games and office programs to run on the IBM operating system. Finding OS/2 applications is usually a challenge.

Although OS/2 can run applications designed for Windows and MS-Dos, IBM wants to encourage third-party software developers to create "native" OS/2 programs and will pay retailers to set aside shelf space for OS/2 programs.

Most PC buyers, however, are unlikely to replace the Windows operating system software that comes on almost every new PC. Part of IBM's attack is therefore aimed at PC manufacturers. Microsoft's recent antitrust consent decree, which forces the company to offer new terms to PC manufacturers that pre-install Windows software on their products, may give IBM the opening it needs. "We are prepared to win this battle by selling software packages one at a time, but we hope to get it pre-loaded before people buy their PCs," says Casey.

Yet few PC makers appear willing to risk switching from the popular Microsoft software: only CompuAdd, a small US PC company, has announced plans to install Warp on its PCs.

IBM is expected, however, to announce next week that its own PC division will put its weight behind OS/2 by loading the software on to its products along with a copy of Microsoft Windows. This will be the acid test for Warp. Faced with the option to boot up Windows or Warp, which one will PC users choose?

# Europe to lead Warp attack

## Sales of early version have beaten US levels, says Alan Cane

European computer users are expected to be in the vanguard of IBM's attack on Microsoft and the Windows operating software.

Traditionally, European customers have lagged two years or more behind their US contemporaries, but Hermann Lamberti, head of IBM's personal software division in Europe, says this situation has already been reversed for OS/2, the early version of Warp.

In 1992, about 500,000 copies of OS/2 were sold in Europe; in 1993 annual sales were running at more than 1m and this year Mr Lamberti expects to sell more than 2.5m. US customers are expected to buy slightly more than 2m copies in 1994.

There seem to be two principal reasons for this. First, while US computer users have tended to adopt each new generation of software in turn, Europeans seem to move in jumps. Lamberti argues that users in countries such as Spain and Portugal, where the PC revolution has been slower to develop than elsewhere in Europe, are moving from a first generation PC to the latest Intel 486 or Pentium based system in one step, and are ready for advanced operating software.

Second, Europe is ahead of the US in some of the key networking technologies, including the digital telephony standard Integrated Services Digital Network, and is well-equipped to make use of an advanced network-based operating system.

Lamberti expects that the tools built into Warp to gain access to the Internet will appeal particularly to European users. Only about 8-9m European users regularly dial into the Internet compared with 15m or so in the US, but interest has been growing rapidly.

The software will have a number of built-in features including simple word processing, database and spreadsheet software for people who make use of only a few of the facilities available in proprietary packages. Lamberti says that nobody should give up a program which suits them in favour of a Warp version, but many users would welcome a simple, built-in alternative.

Warp anticipates the demise of the keyboard and mouse by handling speech and pen-based input, but it may be a few years before there is much call for these features. Warp's list price in the UK will be £70.

# Co-operation at the highest level

## A pioneeering European-Russian mission is focusing on the astronauts, says Miranda Eadie

The Soyuz TM-20 due to blast off just before midnight last night from the Baikonur Cosmodrome in Kazakhstan is the first mission to carry astronauts from the European Space Agency alongside Russian cosmonauts.

The spacecraft, carrying one ESA astronaut and two Russians, is heading for Russia's Mir space station – a permanently manned operational base orbiting 400km above the Earth.

The 30-day mission not only heralds a new era in international space co-operation, it is also the longest space flight by a western European astronaut.

European Space Agency

Heavenly bodies: Mir station project will focus on human physiology

"This mission is paving the way to the International Space Station [a much-disputed project not yet under way] when European astronauts will live and work in space alongside Americans, Canadians, Japanese and Russians," says Jean-Marie Luton, ESA's director general.

Research during the Euromir 94 mission will focus on the effects of microgravity – the very low gravity environment of an orbiting spacecraft – on the the human body, information that will be needed if permanent manned orbiting facilities and interplanetary space flights are to take place.

Profound changes take place in the human body during space flights. Astronauts' faces quickly become swollen because of the movement of body fluids from lower parts of the body towards the head. Disorientation is common. With longer exposure to microgravity, muscles tend to weaken without gravitational forces to work against, and bones lose minerals. At least 50 per cent of astronauts suffer from space sickness.

It was once thought that osteoporosis (a disorder characterised by increased fragility of the bones) was controlled by hormonal reactions, yet in space it was found to be affected by disuse atrophy – the lack of mechanical forces acting on the bone structure.

"Ultimately it is believed that once a mechanism has been understood, a means to compensate for it can then be found," says Heinz Oser, the senior life scientist in the ESA microgravity programme.

The length of the Euromir 94 mission will allow many of the more subtle changes in the human body to be monitored over a longer period of time, increasing the validity of the results. Studies of the muscle system in particular will benefit. Other investigations will focus on the cardiovascular, neuro-sensory and skeletal systems. Sleep patterns, radiation effects and the body's immune system will also being studied.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His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break to explore a theme in the fields of industrial policy, third world development or the environment.

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The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

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## BUSINESS AND THE LAW

# Further clarity on pension rights

EUROPEAN COURT

The European Court of Justice last week decided six cases involving the application of the Rome treaty's equal pay rules (Article 119) to occupational pension rights. The judgments complete a series of decisions explaining the 1990 Barber ruling on sex discrimination in pensions.

The historical context of the judgments is that the ECJ first held that the equal pay rule could be enforced by employees against a private sector employer in the Defrenne case in 1976. The court limited that judgment's retroactive effect. In 1986 it went on to rule in Bilka that the right of access to an occupational pension scheme was subject to the equal pay principle. But it did not limit this ruling's retroactive effect.

Then, on May 17 1990, the ECJ confirmed in Barber that contracted-out occupational pension schemes were subject to the equal pay principle. Accordingly, retirement age discrimination was prohibited. But the Court limited its ruling to the future, save for prior claims by employees or those claiming under them.

In three cases decided at the end of 1993 the ECJ clarified the scope and effect in time of Barber. In Ten Oever, it held the equal pay principle applied only to benefits payable in respect of employment periods served after May 17 1990, except for prior claims. It also said survivors' pension rights were covered by the Barber rules.

In Morroni, the Court said that the Barber principles were not limited to UK contracted-out pensions but covered occupational pension schemes outside the social security system and not benefiting from public finance.

In Neath, the ECJ ruled that the use of actuarial factors differing according to sex in funded defined-benefit pension schemes fell outside the equal pay rule.

The six cases decided last week fell into two groups. The first concerned primarily the pension rights of full-time employees, their dependants and successors against pension scheme trustees. These cases confirmed the principles established in the three 1993 rulings but also dealt with outstanding issues on pension trusts, equalisation methods and related questions. The Court ruled:

- Employees and their dependants may enforce their rights to sex equality against trustees of an occupational pension scheme.
- Where national law limits the power of action of employers or trustees in a way inconsistent with the equal pay principle, they are bound to use all the means available under domestic law to eliminate sex discrimination, including recourse to the courts to seek amendment of the pension scheme or trust deed (themselves governed by national law).
- For periods of service after equalisation of pension rights, the retirement age of women may be increased to that of men. Mitigation of lost benefits for women is not allowed. For periods of employment post Barber but before equalisation, the disadvantaged sex must be given the same benefits as the advantaged. For periods before Barber, the benefits enjoyed by the favoured sex must not be retroactively reduced.
- Single sex schemes are outside the equal pay rule.
- The same principles apply to a civil service occupational scheme which may not discriminate against married men.

*Cases C-200/91 Coloroll, C-408/92 Avdel Systems, C-7/93 Beune and C-28/93 Shell. ECJ FC, September 28 1994.*

The second group concerns the right of access of married women and part-time workers (most of whom are women) to occupational pension schemes.

These cases confirmed the Court's earlier decisions dating back to 1976. They also established that neither the limitation in time of the effect of Barber nor the parallel provision in Protocol 2 on Article 119 of the Rome treaty (added by the Maastricht treaty) affects the rights of employees to enforce the equal pay rules in the context of access to pensions.

However, the ECJ confirmed that national limitation rules apply to claims made by employees and that, when the schemes are contributory, part-time employees must make backdated contributions.

*Cases C-57/93 Vroege and C-128/93 Fisscher. ECJ FC. September 28 1994.*

BRICK COURT CHAMBERS, BRUSSELS.

# Trapped in a time warp

**Robert Rice** on problems in England's civil justice system

Sir Nicholas Lyell (left), Lord Woolf and Sir Thomas Bingham

Two years ago the English criminal justice system was in crisis following a series of high-profile miscarriages of justice. Now, say senior judges and lawyers, there is a crisis in our civil courts which threatens the future of civil justice. The system is dogged with the twin evils of expense and delay, and the situation is deteriorating.

Widespread concern about the problem has already prompted action. Last year the Bar and the Law Society produced a joint report on the future of civil justice which found in England it was trapped in a Dickensian time warp.

It found the use of new technology in the civil courts was virtually negligible. Court procedures were technical, inflexible, riddled with rules and often incomprehensible to litigants. *The language of the law* was littered with archaic and irrelevant jargon. Delay was widespread, leading to ever-increasing costs and frustrating the efficient conduct of commerce and industry.

The report made a number of suggestions for radical change, including restructuring the High Court with the creation of more specialised courts such as the commercial court, widespread introduction of new technology, simplified procedures, and greater use of alternative dispute resolution.

In addition, Lord Woolf, the law lord, has been asked by Lord Mackay, Lord Chancellor, to look again at the civil justice system and in particular at harmonising the rules governing procedures in the High Court and county courts.

Lord Woolf has already floated a number of ideas, such as making a new breed of procedural judges responsible for case management and cost control. Alternatively, he has suggested cases could be handled by teams of judges working together. His final report is not expected for two years.

Both the work of Lord Woolf and the ideas of the Bar/Law Society report hold the promise of a brighter future. But without a commitment from the government to modernise the civil justice system, that brighter future may never materialise. It is this uncertainty about the government's commitment that is causing such concern among senior judges and lawyers.

At the Bar's annual conference in London last weekend, Mr Robert Seabrook QC, chairman of the Bar, welcomed the appointment of Lord Woolf but then questioned the status of his review. What commitment had the government given to it? What was his agenda? What resources had he been given? And what research was he doing?

It seemed clear already, Mr Seabrook said, that no new resources would be made available by the government to implement any recommendations. This, he said, was a very short-sighted approach.

Sir Thomas Bingham, Master of the Rolls, suggested that there were three things which needed to be done to tackle "the serious ills of expense and delay".

The first was the introduction of a computerised case management system giving judges greater control over the various stages of litigation and a greater chance of controlling costs.

The second was the introduction of strict time limits on oral argument in court and a corresponding increase in the issues dealt with by written submissions. It was almost 150 years since the US Supreme Court had of necessity first adopted time limits on oral argument, he said. In England the number of civil appeals showed a marked upward trend, and the backlog of appeals increased year by year. Sir Thomas said he was hopeful of an increase in the number of Appeal Court judges, but this on its own was unlikely to contain, let alone reduce, the waiting times for getting appeals heard. Time limits on oral argument could help.

His third suggestion was for the greater use of alternative dispute resolution. At present there was little evidence of ADR being used in Britain despite its success elsewhere in cutting the time and expense of business disputes. This neglect of ADR was surprising since England had been a world leader in the analogous field of arbitration, he said.

Sir Thomas was unsure of the resource implications of his proposals. If judges were going to spend more time reading documents and less time in court, there might be a need for more judges. But, he said, whatever the net cost to the government, he was sure the "net result will be a great saving of cost and time to the litigant".

It was left to Sir Nicholas Lyell QC, the attorney general, to put the government position. The crisis faced by the civil courts was the result of a number of trends, he said. The volume of laws had increased dramatically. Thirty years ago there were only two ways of making laws – through Parliament or the courts. Today both the courts and parliament were deeply influenced by Europe and by both the European Court of Justice in Luxembourg and the European Court of Human Rights in Strasbourg. In addition, Brussels had express law-making powers.

Sir Nicholas said there had been a huge increase in the amount of disclosure of evidence and information in civil cases, resulting in longer trials. The legal profession had also increased in size. There were now 8,000 practising barristers in England and Wales, an increase of 25 per cent over the last five years. The solicitors' profession had also grown from 34,000 practising solicitors in 1980 to almost 60,000 in 1994.

Cases were now taking longer and there were more of them. Taking just applications for judicial review as an example, he said their number had risen from 160 in 1974 to *1,500 in 1987 to 2,800 in 1993.*

Legal Aid had also grown dramatically. For the first 20 years of the legal aid scheme the total cost of legal aid never exceeded £10m a year. By 1980 the cost had risen to £100m, by 1990 to £1bn, and it was still rising. Five years ago 2.3m people were helped by legal aid. Last year that figure had risen to 3.5m people. At the same time the average cost of each individual action had also risen. Five years ago each action cost £204. Today the cost was £350.

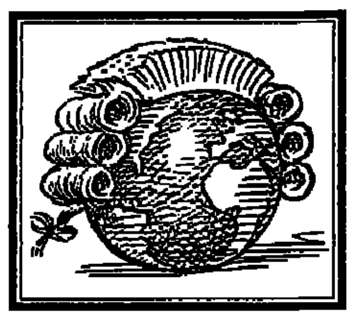
Sir Nicholas said he was in favour of judges taking a more active role in case management and he saw the benefits of time limits on oral argument. That system worked well at both the European Court of Justice and the Strasbourg Human Rights Court. But at the end of the day, he said, resources were finite and so they had to be put to the best use.

He said he sometimes wondered whether, adapting Parkinson's law, the volume of litigation expanded to earn the money which was available for it. There might also be an element of truth in the view that simplifying procedures and making courts more accessible had only encouraged more litigation.

The measure of the task facing Lord Woolf is now clearer. The government will support initiatives to cut expense and delay in the civil justice system provided they do not require extra resources. To the extent that proposals, such as computerised case management systems and court-annexed ADR, require extra resources, the money to fund them will have to be found through efficiency savings elsewhere.

There are those who believe a modern civil justice system cannot be achieved without the commitment of further resources. If they are right, the crisis facing the civil justice system looks set to continue.

## LEGAL BRIEFS



### One of oldest firms in New York closes

*One of New York's oldest law* firms, Lord Day & Lord Barrett Smith, had its partnership formally dissolved last Friday. Most of the lawyers working in the Lord Day commercial, litigation and tax groups have transferred two blocks from Broadway to Park Avenue, to work for Morgan Lewis & Bockius. The Lord Day intake will bring the number of lawyers at Morgan worldwide to 800.

### Insurance cover

Commercial litigators and senior barristers attending a recent litigation seminar in London favoured changing court rules to force defendants to disclose their insurance cover at the start of a trial. The lawyers believe that, by making defendants put their cards on the table at the outset, time and money could be saved in not pursuing people without resources. This would bring the UK into line with practice in Canada and the US.

The change would require legislation, because under English law there is a fiduciary duty on the insured not to disclose details of cover until there has been a finding of liability.

The move is opposed by insurers, which think plaintiffs would sue only those with "deep pockets". But Mr Justice Otton said he was in favour, provided the trial judge, who decides damages in the UK, was not told whether the defendant had cover.

### Bar appointment

Paul Hoddinott, former British Naval Attache in Washington DC, this week will be confirmed as the next executive director of the International Bar Association. Mr Hoddinott will take over on January 1 from Madeleine May, who leaves the IBA after 15 years.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FT Surveys

* Source: Chief Executives in Europe 1990

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'The Menin Road', 1919, by Paul Nash: were Picasso, Matisse or Duchamps painting anything better?

# Avant-garde images of devastation

## At the Barbican **William Packer** finds War Art set in its proper international and modernist context

Britain has been alone in distinguishing War Art in this century as a particular genre. This judgment has had its critical effects. The two world wars were of course the natural subject of art, for they touched the lives of artists no less than those of everyone else. But in coming round, uniquely, in the later years of the first war, to the idea that art should be officially commissioned as document and memorial, sustaining that policy through the second war and lodging most of the products within a single institution, the Imperial War Museum, we set in place a number of *idées fixes*, or prejudices.

Throughout Europe, artists of all kinds were drawn into the first world war. Yet so far as Britain was concerned, the work that came out of it was subsequently transmuted into a kind of official art that led us to believe it peculiar to ourselves. And ironically the more avant-garde it was, the more were we inclined to take it as anything but. For here was art related directly to a general, shared and awful experience that, safely institutionalised in popular and public terms, sat quite apart from the rest of modern and therefore difficult art. Thus set out of its proper international and modernist context, such art has too long been neglected at its true critical level.

The premise of the remarkable exhibition that Richard Cork has put together is the realisation that art, great art and War Art at that, was generated in every nation touched by the first world war. What it does for the British art of the war is immediately to rescue it from its unwarranted parochialism, to test and recognise it as the remarkable achievement it really is. And to look here, again, for example, at Stanley Spencer's familiar but still extraordinary and moving painting of "Travoys" (mule-drawn stretchers) bringing wounded into a Macedonian dressing-station, or at Paul Nash's vast and desolating painting of "The Menin Road", is suddenly to realise that nothing more serious, more radical, nothing indeed better in any sense, was being done anywhere else at that time. Picasso? Matisse? Duchamp? Not at all.

But this is no mere exercise in the rehabilitation of British art. The context serves all alike, and none more so than the Germans. The only difference is that with their avant-garde credentials already well intact, such artists as Dix and Beckmann, Kathe Kollwitz, Grosz and Kirchner, can more readily be taken as the great artists they are, even though represented by comparatively incidental work. Do David Jones's illustrations to his own epic poem of the war, "In Parenthesis", have a right to stand on equal terms with such things? Of course they do.

In all such compilations, the minor or the forgotten figures, or those more familiar but cast in a fresh light, are the more immediately intriguing. The show begins with a section on the war in anticipation, with images from such as Balla and Carra of Futurist excitement at the prospect of a great mechanical cleansing and renewal, made the more dire in knowledge of the reality to come. The corrective comes in terms of prescient foreboding and anxiety, with Ludwig Meidner's apocalyptic expressionist visions of ruin and devastation, and de Chirico, of all people, giving an extra twist to the idea of what War Art might be with a haunted image of a sailors' barracks.

So the show proceeds through its several sections, from the outbreak of war and its accompanying patriotic enthusiasms, through deadlock and disillusionment to the dreadful end, and to aftermath and remembrance. And we follow the artists in this from their initial fervour and commitment to resignation, anger and despair. Through it all, the polemical and the documentary walk hand in hand, with the polemical turning to bitter satire and irony as time goes on. And as always with such things, while the polemical might carry the greater immediate emotional force, it is the cooler observation, that might inform or complement it, that hangs on in the mind.

The exhibition's epigraph is taken from a letter which Paul Nash wrote from Passchendaele in 1917: "it is unspeakable, godless, hopeless. I am no longer an artist ... (but) a messenger ... to those who want the war to go on for ever. Feeble, inarticulate, will be my message, but it will have a bitter truth, and may it burn their lousy souls." Yet his own "Menin Road" or "Mule Track" remain the more resonant as images than his overtly ironical "We are making a better world", for all that the imagery of devastation is much the same. For they leave us room to come to our own conclusions. Henry Lamb's large canvas, "Advanced Dressing Station on the Struma", his manifest masterpiece, with its resting stretcher-bearers smoking and chatting beneath the trees, says it all.

**A Bitter Truth: Avant-garde Art and the Great War; Barbican Art Gallery, Barbican Centre EC2, until December 11.**

Theatre/Ian Shuttleworth

# The Slab Boys Trilogy

After months of critical vilification for a clutch of misconceived projects, the Young Vic's artistic stock stands in pressing need of a fillip. Tim Supple's production of John Byrne's greatest theatrical hits goes part of the way to that end.

Byrne's semi-autobiographical trilogy follows his surrogate Phil McCann, first seen in *The Slab Boys* as a callous 19 year old in 1957, harbouring fierce ambitions towards the Glasgow School of Art while enduring the workaday grind (literally) in the slab room of a carpet factory. He and his drain-pipe trousered comrade, Spanky, play often savage tricks on the slab room runt Hector, pinch sticky buns from the tea lady's trolley, lust after the statuesque Lucille, give lip to all and sundry, and just occasionally pulverise paint pigments for use by the carpet designers outside whose desks they covet.

*The Slab Boys* remains a marvel of switchback language and moods. Byrne routinely brings several different vernaculars together within a single sentence to create linguistic crossbreeds with the head of one idiom, claws of a second and wings of a third. Phil and Spanky's exchanges are sharp as a tack and, just as they career between the vocabulary of teddy boys and mock public school banter, so the emotional register can switch instantly from superficial mirth to its darker underside and back again without missing a beat. The ability to deal with personal tragedies and everyday oppressions without subordinating the comedy of the script to this darker vein, or vice versa, is one of Byrne's greatest strengths, and the first play of the trilogy is its most ebullient manifestation.

Its follow up, *Cuttin' a Rug*, is set at the factory's staff dance on the evening immediately following the action of *The Slab Boys*. Its attempt to locate itself in a different style from the earlier play are, frankly, too laboured. The first act, set in parallel women's and men's cloakrooms before the "staffie" begins, seems little more than a 45 minute prologue; the frequent asides of characters' inner thoughts to the audience feel uncomfortably Godberesque. The verbal and emotional sensitivity are still in evidence, but if seen on its own this play would be robbed of more than half its strength.

*Still Life* – taking place in a cemetery, its two acts ten and 15 years after the other plays – is another kettle of fish again. It sees Byrne giving in either to the impulse to effect a lengthy and comprehensive closure to the trilogy, or to vicarious wish-fulfilment in re-writing his own past, or both. He so immerses himself in the play's heart-to-heart dialogues, in finally laying bare the characters of Phil, the struggling artist, and Spanky, the rock muso, that he goes on a good 20 minutes too long. Despite this over enthusiasm, the play contains moments of brilliantly understated emotion, and seemingly casual recapitulations of earlier motifs. *Still Life* has the feel of a coda, but does possess the dramatic strength to stand on its own.

Supple's direction is sure footed and unobtrusive. He serves the scripts admirably; none of the potentially awkward mood collisions come a cropper. As Phil, Paul Higgins feelingly conveys both the character's manic larking around and the defensiveness in which it is rooted; more crucially, he does not overplay the element of "author's proxy" in Phil until it emerges naturally in the final play. As much attention is given to Spanky who, in Stuart McQuarrie's portrayal, is astute enough to keep up with Phil but never quite gets ahead of the game. Katy Murphy, the acerbic Miss Toner in Byrne's 1986 television serial *Tutti Frutti*, brings the same down-to-earth suss to her performance as Lucille.

Byrne's own set designs are naturally adroit. His costume designs are more questionable, obviously the author knows what he wants, but the women's costumes in particular often look less concerned with authenticity or evocation of a particular style than pandering to contemporary notions of flash. At any rate, whether or not the plays look right, they indisputably look good.

Supple presumably hopes that audiences will opt to see the entire trilogy (either on separate nights or over 11 mercifully ungruelling hours on a Saturday) rather than settle for one play (which, in all candour, would have to be *The Slab Boys*). It remains to be seen whether his calculation will pay off. In any event, the knives which had been drawn in the Young Vic's direction are likely to be sheathed again for a while.

**At the Young Vic until November 12 (071 928 6363)**

Opera

# Outbreak of symbolism in Leeds 'Trovatore'

Not for Leeds a French grand opera of the kind acted out in Paris. While the Bastille made the loss of its music director a drama on an international scale, Opera North's general director slipped away quietly. Ian Ritchie had barely had time to settle in before his departure was being announced for a new job in Scotland without any reasons given – a case of British understatement.

What this will mean for the company is not yet clear. Whatever Ritchie had time to plan, it will not have been enough to stamp any personal mark on Opera North's repertoire or house production style. His name is still listed in the programme, but only for a few more weeks. The job advertisement has already been placed for his successor, who will take over with at least one of the company's assets securely in place: the 1994/5 season looks typically adventurous.

Amid a variety of obscure operas, Verdi's *Il trovatore* might look the odd one out, but for a company with the limited resources of Opera North it is as much a challenge as any. Finding a cast of four singers who can deliver Verdi's vocal parts to the standards that audiences now expect from recordings is difficult enough for international opera-houses, let alone a regional company with empty coffers.

Having a theatre the size of the Grand at Leeds makes life easier, but the quartet that Opera North has assembled for this new production passes muster, and often more. Edmund Barham has been making his way solidly up through the central tenor roles of the repertoire and Manrico marks a new rung on his ascent, stylishly phrased in the aria, clarion strong in the following cabaletta (high B's rather than C's, if I am not mistaken). His is not an Italian voice, but then nor were the others.

Katerina Kudriavchenko has a backwardly-placed soprano, which lacks open, Italianate colours, but her Leonora offered a decent compromise between the lyrical and dramatic sides of role. Ettore Kim's baritone is tightly-controlled with a fast vibrato, at its best when the Conte di Luna was being strong and forthright.

None of them found much time for acting – a luxury in this opera at the best of times, though one might have expected Opera North, with its reputation for integrated dramatic performances, to reassess the priorities. Sally Burgess's post-Freudian Azucena, wrestling with the demons in her conscience, came nearest to a newly thought-out portrayal. Her mezzo's centre of gravity lies a little high for the part, but has searing top notes as compensation. Clive Bayley related Ferrando's narration vividly.

At the expense of some unidiomatic literalness in his reading of the score (Leonora's soaring lines at the end of Part 2 neatly-clipped, with no sense of grandeur) Paul Daniel gave Verdi his essential demon-driven urgency. Brilliant wind sounds pierced the orchestral ensemble, just as melodramatic shafts of lighting periodically burst forth from Inga Levant's gloomy production. Night and fire – two of the opera's main motifs – were never far away.

Indeed, the production suffered a nasty outbreak of symbolism early on: swords of vengeance staked in the ground, a harp for the troubadour, a huge photo of two infant brothers which Azucena hauled around the stage. Later it contented itself with supplying a potent background of a community savagely at war with itself – or was that also meant to be symbolic of a company that seems to be in the wars backstage itself at the moment?

**Richard Fairman**

**At the Grand Theatre, Leeds, until October 14; then Sheffield, Nottingham and Manchester**

*INTERNATIONAL*

# ARTS GUIDE

## ■ AMSTERDAM

**Concertgebouw** Tonight: Wout Oosterkamp sings Schumann Lieder. Wed: Hartmut Haenchen conducts Netherlands Philharmonic Orchestra in works by Wagenaar, Beethoven and Brahms, with piano soloist Karin Lechner. Fri: Konstantin Scherbakov piano recital. Sat afternoon: Radio Philharmonic Orchestra in Mahler's Seventh Symphony. Sat evening: Netherlands Handel Union sings Verdi. Sat (Kleine Zaal): Kyoko Takezawa violin recital. Sun: Alfred Brendel plays Beethoven piano sonatas (020-671 8345)
**Muziektheater** Tonight, Thurs, Sun afternoon: Graeme Jenkins conducts Jürgen Flimm's production of Le nozze di Figaro (repeated Oct 14, 18, 20, 23, 26 and 30). Fri, Sat and next Mon: Karen Appel and Min Tanaka *in dance* theatre piece entitled Can we dance a landscape?. Oct 12, 13, 15: Parsons Dance Co (020-625 5455)

## ■ ANTWERP

**de Vlaamse Opera** Tonight, Thurs, Sat and next Tues: Silvio Varviso conducts Guy Joosten's production of Don Giovanni, with cast headed by Jeffrey Black, Hillevi Martinpelto and Patricia Racette. The production will also have five performances in Ghent, starting Oct 18 (03-233 6685)

## ■ BRUSSELS

**Palais des Beaux Arts** Murray Perahia gives a piano recital tonight. Antoni Wit conducts Polish National Radio Symphony Orchestra tomorrow in a Lutoslawski programme, with soprano Phyllis Bryn-Julson. Krzysztof Penderecki conducts a programme of his own choral music on Fri, and Jan Krenz conducts Polish orchestral music on Sat (02-507 8200)
**Monnaie** Antonio Pappano conducts Achim Freyer's new production of Tristan und Isolde tomorrow and Sun (also Oct 13, 18, 22). The cast is headed by Ronald Hamilton and Anne Evans (02-218 1211)
**Théâtre National** Tony Kushner's *play Angels in America (first part:* Millenium Approaches) runs daily except Mon till Oct 19 (02-217 0303)

## ■ CHICAGO

**MUSIC**

**Chicago Symphony** In tonight's concert, Daniel Barenboim conducts works by Schoenberg and Brahms, with violin soloist Maxim Vengerov. On Thurs, Fri and Sat, Barenboim conducts Bruckner's Eighth Symphony (312-435 6666)
**Lyric Opera** This week's performances are The Rake's Progress tonight and Thurs, and Boris Godunov tomorrow and Sat. The Stravinsky is a new production conducted by Dennis Russell Davies and staged by Graham Vick, with a cast headed by Jerry Hadley, Ruth Ann Swenson and Samuel Ramey *(runs till Oct 28). The Musorgsky is* conducted by Bruno Bartoletti and staged by Stein Winge, with Ramey and Vladimir Matorin alternating in the title *role* (till Oct 14). Giordano's Fedora opens on Oct 15 with Mirella Freni and Placido Domingo (312-332 2244)

**THEATRE**

● Angels in America: the national touring production of Tony Kushner's two-part epic is directed by Michael Mayer, with Jonathan Hadary as Roy Kohn (Royal George 312-988 9000)
● A Clockwork Orange: the American premiere of the stage version of Anthony Burgess' novel (Steppenwolf 312-335 1650)
● Laughter on the 23rd Floor: Neil Simon's newest comedy about the golden days of live TV comedy (Briar Street 312-348 4000)
● Later Life: A.R. Gurney's lovely, ruminative play about finding romance after the age of 40 (Northlight 312-327 5588)
● The Who's Tommy: the touring version of the hit Broadway musical about the pinball wizard who becomes a media sensation. Opens on Thurs, till Oct 30 (Auditorium 312-902 1500)

## ■ GENEVA

**Grand Théâtre** A new ballet production, including a new work by Oscar Araiz and a new version of John Neumeier's Spring and Fall, opens next Mon. Peter Schreier gives a song recital on Oct 13 (022-311 2311)
**Victoria Hall** Andras Schiff plays Bach's The Well-Tempered Clavier *Books 1 and 2 next Mon and Wed* (022-310 9193)
**Comédie** The Royal Shakespeare Company opens a week of performances next Mon of Christopher Hampton's stage adaptation of Les Liaisons dangereuses, directed by Michael Attenborough (022-320 5001)

## ■ THE HAGUE

**Dr Anton Philipszaal** Tomorrow: members of the Hague Philharmonic play chamber music by Bach and Mendelssohn. Fri, Sat: Günther Herbig conducts Hague Philharmonic Orchestra in the eighth symphonies of Schubert and Shostakovich. Sun: Randy Newman (070-360 9810)

## ■ VIENNA

● Leonard Slatkin conducts the Vienna Symphony Orchestra tomorrow and Thurs at the Musikverein, in a programme of Mendelssohn, Vaughan Williams and Berlioz (viola soloist Nobuko Imai). Mara Zampieri gives a song recital on Fri and next Mon, and Okko Kamu conducts the Helsinki Philharmonic Orchestra on Sat and Sun (505 8190). Sandor Vegh conducts the Camerata Academica *in a programme of Viennese classics* next Mon at the Konzerthaus (712 1211)
● The Staatsoper is closed for technical alterations till Dec 14. A State Opera Ballet production, based on Lehar's Merry Widow and choreographed by Ronald Hynd, is in repertory at the Volksoper (51444 2959/51444 2969/513 1513)

## ■ WASHINGTON

**MUSIC**

● Claus Peter Flor conducts the National Symphony Orchestra at Kennedy Center Concert Hall on Thurs, Fri and Sat. The programme consists of Beethoven's Fourth Piano Concerto (Yefim Bronfman) and Tchaikovsky's Sixth Symphony. The Iceland Sinfonietta gives a concert at Terrace Theatre on Thurs (202-467 4600)
● David Zinman conducts the Baltimore Symphony Orchestra on Fri, Sat and Sun afternoon at Baltimore's Joseph Meyerhoff Symphony Hall. The programme consists of Copland's El Salon Mexico, Stravinsky's Firebird suite and Rakhmaninov's Second Symphony (410-783 8000)

**THEATRE**

● Flying' West: this play about courage and frontier justice in late 19th century America, produced by New Jersey's acclaimed Crossroads Theatre, runs till Sun at Eisenhower Theater (202-467 4600)
● The Rise and Fall of Little Voice: Jim Cartwright's play, about a young girl with an ability to mimic pop female vocalists, has had its run at Studio Theater extended till Oct 16 *(202-332 3300)*
● The Cherry Orchard: Chekhov's drama is directed by Irene Lewis at Center Stage. Till Oct 30 (410-332 0033)
● Henry IV: an adaptation of Parts I and II of Shakespeare's history plays is a Shakespeare Theater production at the Lansburgh, directed by Michael Kahn. Till Nov 6 (202-393 2700)
● The Sweet Revenge of Louisa May: a musical fashioned from the stories of Louisa May Alcott. At Olney Theater till Oct 23 (301-924 3400)

## ■ ZURICH

**Opernhaus** The main event this week is the first night on Sat of Ruth Berghaus' new production of Katya Kabanova. Ralf Weikert conducts a cast headed by Ana Pusar, Peter Straka and Cornelia Kallisch (repeated Oct 11, 14, 19, 21, 26, 29, Nov 3 and 5). Repertory also includes La Cenerentola, Il barbiere di Siviglia and La belle Hélène (01-262 0909)
**Tonhalle** James Galway plays Mercadante's Flute Concerto in tomorrow's concert by the Tonhalle Orchestra, which also includes works by Weber and Rakhmaninov. Galway plays in a chamber music recital on Thurs, and gives the world premiere of George Nicholson's new Flute Concerto on Fri. The Zurich Chamber Orchestra gives a concert next Mon, with works by Salieri, Mozart, Cimarosa and Haydn (01-261 1600)
**Schauspielhaus** The season has just opened with two new productions: Chekhov's Three Sisters directed by Dieter Giesing, and Büchner's Dantons Tod directed by Uwe Eric Laufenberg, both of which continue in repertory for the rest of the month (01-221 2283)

### ARTS GUIDE

**Monday:** Berlin, New York and Paris.
**Tuesday:** Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
**Wednesday:** France, Germany, Scandinavia.
**Thursday:** Italy, Spain, Athens, London, Prague.
**Friday:** Exhibitions Guide.

### European Cable and Satellite Business TV

(Central European Time)

**MONDAY TO FRIDAY**
**NBC/Super Channel:** FT Business Today 1330; FT Business Tonight 1730, 2230

**MONDAY**
**NBC/Super Channel:** FT Reports 1230.

**TUESDAY**
**Euronews:** FT Reports 0745, 1315, 1545, 1815, 2345

**WEDNESDAY**
**NBC/Super Channel:** FT Reports 1230

**FRIDAY**
**NBC/Super Channel:** FT Reports 1230
**Sky News:** FT Reports 0230, 2030

**SUNDAY**
**NBC/Super Channel:** FT Reports 2230
**Sky News:** FT Reports 0430, 1730;

His and her politics: President Alberto Fujimori and his estranged wife Ms Susana Higuchi

# Poll where parties count for nothing

**Sally Bowen** on the Peruvian president's campaign for re-election

President Alberto Fujimori of Peru is expected to declare within a few days his candidacy in next year's presidential elections.

His chances of a second term look good. Mr Fujimori – who in 1990 took over a country devastated by economic mismanagement and terrorism – now heads the fastest-growing economy in Latin America.

Growth is expected to reach 9 per cent this year. Annual inflation is likely to fall below 20 per cent, from 7,500 per cent in 1990. The guerrilla movements which then seemed on the verge of taking over the state now look broken.

With this record behind him, Mr Fujimori is popular: polls suggest that 65 per cent of Peruvians think he is doing a good job. He is also popular among businessmen – privatisation is moving ahead and the economy, including its mining sector, has been thrown open to foreign investment.

Closer to home, things are trickier. He is so unpopular with his estranged wife, Ms Susana Higuchi, that she is threatening to sabotage her husband's expected attempt at re-election in next April's elections. Alleging widespread corruption in the Fujimori regime, she has decided to run for president too.

Backed by a newly-created "Harmony Twenty-First Century" movement, she must first win a ruling from a constitutional court to overturn a legal bar – created by the Fujimori-dominated Congress – that bans relatives of the head of state from standing for the presidency.

She is just one of the challengers to Mr Fujimori, who has changed the constitution to allow for his re-election.

Last month, the 74-year-old former UN secretary-general, Mr Javier Pérez de Cuéllar, announced his intention to seek office. Mr Alejandro Toledo, a respected economist, is also running as head of a new "independent movement of professionals and technocrats", calling itself "Peru Possible". With a host of lesser-known figures, there are already 15 declared candidates, and by the October 11 deadline there could be as many as 24 presidential hopefuls.

Mr Pérez de Cuéllar and Mr Toledo have both spent many years outside Peru, the former as a career diplomat, the latter as a consultant and visiting professor at eminent universities. Ms Higuchi is an engineer who founded and ran a successful construction company, until becoming first lady.

All three have features in common: none has any experience of government and none is associated with any political party. They even steer clear of the word "party" in describing the groups that support them.

Lack of political experience is almost a *sine qua non* for electoral success in today's Peru. The biggest drawback is to be dubbed a "traditional politician". It was such politicians who, culminating in the 1985-1990 presidency of Mr Alan Garcia, succeeded in bringing hyperinflation, corruption and terrorism.

Political party structures have been hierarchical and unresponsive to popular needs. Now the parties are making efforts to polish their image – consulting members over candidacies, bringing in younger faces and co-opting women to their male-dominated organisations. But their standing remains low. Four out of five Peruvians describe themselves as independents with no party allegiance.

This development has been encouraged by Mr Fujimori. He came from nowhere to win the 1990 elections over the leading candidate – author Mario Vargas Llosa – who had allied himself with the political parties thinking such a move would secure him support.

Since then, through skilful manipulation – largely via well-managed revelations of earlier scandals – Mr Fujimori has ensured that the reputations of the traditional parties have remained low, while enhancing his own image and that of his military backers.

Reluctant to transform his own makeshift political alliance into an organised party, Mr Fujimori has preferred to emphasise the direct link between president and people. He spends much of his time travelling the country, fostering the impression that he is the source of state munificence. He has eschewed ideology, and made a virtue out of pragmatism, or – as he would say – "deeds not words".

He has outmanoeuvred his political opponents. In April 1992, with the backing of the army, he suspended congress and the constitution. Two of the main parties refused to take part in the congress that he then set up with the main task of agreeing a new constitution, leaving him a majority which passes any law he sends before it.

Mr Fujimori, a self-confessed authoritarian, has also concentrated power in Lima. Grassroots movements, whether of peasants, workers or shanty-town dwellers, have seen their influence eroded; in country areas recently reclaimed from the guerrillas, Mr Fujimori's military allies have replaced elected civilian governors.

This, argue his opponents, is unhealthy in a country where there is little history of democracy. It has undermined the country's political and judicial institutions, they say, leaving Peru, with all its ethnic and economic divisions, as far away as ever from becoming a cohesive nation. For these reasons, Mr Fujimori's achievements remain superficial, they believe, offering room for successful opposition.

Mr Pérez de Cuéllar said, when launching his candidacy, that going through Peru he found "vast areas of poverty and systematic ill-treatment of institutions". He would perfect "what had already been achieved", but with "democracy, genuine stability, development and jobs".

From Mr Toledo, the opening campaign message was: "Changes and achievements need to be institutionalised. It is extremely dangerous to leave the country in the hands of one person, however capable he may be."

The need for mature institutions and political parties and a decentralisation of power may well be pressing. But matched against Mr Fujimori's successes on the economy and against terrorism, it may prove hard to turn that into a campaign slogan.

## Joe Rogaly

# Just a pinch of ethics

Mr Gordon Brown did his best to reach the Labour party's endogenous zone yesterday. He did not quite manage that inherently improbable feat. The shadow chancellor tried, but to little avail. He sensibly avoided the technical terminology, to do with growth theory, that baffled some of us when he delivered his now celebrated lecture to a conference on the economy last week. He was aware that this time he was addressing his party's annual conference, and tailored his remarks accordingly.

"Let the nurses," he proclaimed, "nurse." Warming to his theme, he added, "Let the teachers teach." Encouraged by the rising applause he went on, "Let the doctors care." That is the trouble with the English language. It catches you out. "Let the doctors doct", might have carried greater resonance, but the word "doct", unlike endogenous, has not yet been coined.

Mr Brown will, I trust, forgive the above little tease. It was irresistible. He was, however, making a serious point, namely that the Conservatives' creation of quangos and "phoney markets" has led to "administrative chaos and paper-pushing". Not every reader will agree with this, but I do. The health service reforms may be fine in theory, but they have yet to prove themselves in practice. Ditto the opted-out schools. The shadow chancellor also gave populist expression to the "new Labour" view of how to manage the market economy, something he has spent much energy and time on since April 1992. He did not flinch from the awkward passages, such as: "It is by liberating people's potential that we build the dynamic market economy we need." He included several jokes of his own, most of them about Lord Jeffrey Archer.

Alas, political life is not conducted according to the rules of fairness. Mr Brown's Herculean effort was insufficiently rewarded. The assembly did not rise to its feet. There was no standing ovation. Tears were not wiped from the eyes of the faithful. How unjust! The shadow chancellor could not have worked harder. He is a long-practised conference tub-thumper, and he did his best. What we need to understand is why the applause, while substantial, was no more than adequate to the occasion.

**The most radical agenda Labour will find itself able to offer includes mildly progressive taxation plus restoration of civic democracy**

A cold start on a Monday morning did not help, but the explanation runs deeper than that. It is, frankly, that the modernised Labour message has not yet been expressed in terms that quicken the heart-beat. The blood does not course more rapidly through the veins on hearing it. Well, mine may but I have peculiar, commentator's, veins, veins responsive to words like "communitarian" and, on good days, even to phrases like "industrial regeneration". The pulse rate of the Labour party may accelerate when the new leader sits down this afternoon, but, absent a tour de force by Mr Tony Blair, it has to be said that for most delegates this is the most soothing, most gentle, least contentious of conferences. Never mind the posturing of some of the trade union leaders. They are old gentlemen in mid-life crisis, easily slapped down. In spite of them you have to characterise the first day of this conference as Dullsville, squared.

*Reinventing the Left**, published yesterday, tells us why, although it does not set out to do so. It is a collection of serious essays, edited by David Miliband, head of policy in Mr Blair's office. As Mr Miliband writes in his introduction, none of the authors believes in revolution, but all espouse social and economic reform. This may be sensible philosophy, but it is milk-and-water politics. Old socialism, with its Marxist infusion and its martyrs' blood, is now an anachronism. When in vogue it was, if nothing else, rousing. You were angry with it, or angered by it, as the delegates were by Mr Arthur Scargill's ranting yesterday. The free market and libertarian thinking that rose to such ascendancy during the 1980s releases similar, countervailing, passions. These are, however, cooler, more querulous, times. Most voters would agree that the unregulated market has its failures, and many think that the government ought to do something about that. You need not put your knitting down to make such an observation. It sums up today's mainstream thinking. Mr Miliband puts it thus: "The Left retains its distinctive place in politics today not because of its utopian vision of the future, but by virtue, first, of its critique of the present, in other words its analysis of advanced industrial societies, and second its ambition progressively to achieve change."

Where does that take us? "While there is an immediate argument within politics about the sorts of capitalist society – regulated and humanised, or deregulated and Hobbesian – we want to live in, there remain ambitions fundamentally to realign the economic and social order," says Mr Miliband. I suspect that the most radical agenda that Labour will find itself able to offer includes mildly progressive taxation plus the restoration of civic democracy. The latter is an enterprise to which many thinking Conservatives are attracted.

The recipe can only be brought alive by adding a pinch of ethics. If people trouble themselves about the effect of markets alone it is because they know that the market is an abstract. It has no conscience. Mr Miliband quotes several writers to the effect that "unfettered market rule will corrode precisely the values and institutions on which the social order rests". This does not mean Tories, whether Thatcherite or one-nation, are amoral; they are patently not that. It does mean there is a longing for an ethical underpinning, felt on all sides of the political spectrum.

Religion may attract some; humanist ethics will suffice for the rest of the electorate. Mr Blair neither hides nor flaunts his Christianity, but its existence enables him to speak convincingly of values and principles. His reformist, centrist, prescriptions for the political economy may inevitably lack blood-and-guts excitement, but if he can touch the ethical sensibilities of the party faithful, and by extension the rest of us, he may yet hear prolonged cheering; if he convinces the troops that, blow the principles what he offers is victory, there will be an extended stamping of feet, yells and whistles.

**Polity Press/Institute for Public Policy Research, 108 Cowley Road, Oxford OX4 1JF*

# LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## No reason why options not valued

*From Mr J N Stevens.*

Sir, We feel let down by the Accounting Standards Board. It allowed its sub-committee, the urgent issues taskforce, to judge whether companies are justified in not obeying the law when reporting total board-room pay ("Guidelines on directors' option schemes issued", September 29). The taskforce has concluded that it is not practicable to include in estimated boardroom emoluments a "meaningful" money value for directors' share options. Its published reasons appear to us contrived and one-sided. There is no reference to the fact that US companies are being required to value directors' share options.

We are concerned that ASB should have let the taskforce look at this issue. It is a matter of integrity. The taskforce has 16 members. Each of the eight largest UK accounting firms has a representative. Four members, three finance directors and a chief executive, come from leading UK companies. So a majority will probably have been involved either in signing or in auditing company accounts which arguably did not comply with the Companies Act.

Is it right to allow the law to be judged by those who may not be following it? Why should share options not be valued along the lines adopted by the US?

J N Stevens,
*honorary secretary,*
*UK Shareholders Association,*
*Half Tiles, Roseacre Gardens,*
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*Surrey GU4 8RQ*

## Lift veil to reveal insider dealers

*From Mr Anthony Woodward.*

Sir, In common with similar inquiries, the investigation into insider dealing in Consgold shares ran into the inevitable brick wall that it is not always possible to identify the ultimate beneficiary of the organisation buying the shares ("S African leak in Consgold bid run-up – DTI says majority of dealings in call options were 'wholly abnormal'", September 30).

There seems to be a simple solution to this: make it a requirement upon all intermediaries through which financial instruments are bought/sold that they can only do so if they are aware of the true owner of the investment and that they are empowered to reveal his identity, if required. There is a reasonable parallel to this approach in the procedures which now have to be undertaken by banks in order to prevent money laundering.

If the veil of secrecy could be lifted from all shareholdings, the incidence of insider dealing would fall dramatically.

Anthony Woodward,
*93 Ashbury Road,*
*London SW11*

## Curious way for Lloyd's to treat its capital base

*From Mr G N M Mellersh.*

Sir, The circular just sent out by Lloyd's debt collectors is more remarkable than the aspects Mr J Hamilton Stutt highlights (Letters, October 1) in that it seeks payment of "debts" that everyone from the chairman of Lloyd's downwards agrees do not exist.

This bizarre situation arises because of the "double count" – in essence syndicates writing errors and omissions policies reserving against possible claims from other syndicates who themselves reserve against such claims not being paid. Lloyd's itself has been happy to take an overall credit for this double count in order to satisfy the Department of Trade and Industry's solvency requirement for the market as a whole, but in spite of repeated requests, it continues to refuse to make a similar credit available to individual Names. The result is that many Names able and willing to trade on will be unable to do so because they decline to make further funds available to meet what are known as "solvency deficits" – which do not in fact exist.

The situation will only be resolved when the double count is unwound by the settlement one way or the other of the many legal actions between Names and their agents. Who wins and who loses is irrelevant. Meanwhile, Lloyd's appears determined to inflict the maximum damage on its members – a curious way to treat the capital base.

G N M Mellersh,
*56 Marine Park,*
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## Balance will cut costs of housing

*From Mr Roy Swanston.*

Sir, It is a pity Jack Straw, Labour's local government spokesman, has resurrected his party's criticism of deregulated rents in the private rented sector ("£4bn cost of housing benefit attacked", September 26). The way to reduce housing costs for all is to ensure that demand and supply are in balance. Personal help for those who need it, rather than subsidies to "bricks and mortar", is more efficient and allows occupiers greater scope to choose tenure, type of landlord, and size and quality of accommodation.

If the needs of those who cannot otherwise afford adequate housing are to be met, and if private sector funds are to be tapped for this purpose, both housing support and rents must be high enough to allow the private sector to be confident about long-term investment in rented housing. Recent statements by both the chief secretary to the Treasury and the Labour party have been unhelpful in these respects.

Nonetheless a more fundamental look at the form of income support for both home-owners and tenants, with the aims of reducing the poverty trap and achieving a basis of support which is tenure-neutral, is overdue. Such a scheme could lead gradually to reduced housing costs to the public purse and in real terms.

Roy Swanston,
*Royal Institution of Chartered Surveyors,*
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*London SW1P 3AD*

## No need for this ignorance of European institutions

*From Mr A.J.Birchall.*

Sir, It was ironic that Robert Rice should refer ("Cost of Ignorance", September 30) to the regular confusion between the European Community's Court of Justice and the Council of Europe's Court of Human Rights, when the previous day your front page article, "Pensions ruling will put costs on employers", referred to the decision of the former, as "...part of a series of judgments in Strasbourg..."

The institutions of the European Community are highly active and there is an enormous amount of information available about those activities. There is no reason for confusion or that any of them should be "shadowy" bodies. News coverage, however, can often be poor, even from the most reliable of sources.

Robert Rice was writing about the recent human rights reference, arising out of the Guinness affair. Various reports about that, on TV and in the newspapers, wrongly attributed it to the EU, the EC and the European Court of Justice. On the day, recently, that the proposed paternity-leave legislation was under discussion in Brussels, a radio news report conjectured that if a compromise could not be agreed with the UK, then under the Social Chapter, the other 11 states, might go it alone!

Robert Rice is correct about the European Court of Justice. It and the other Community institutions do enjoy considerable "power... over business" as well as other aspects of our lives. But as long as significant media comment directs our attention to matters such as the European Commission's interference, with our inalienable right to regulate for ourselves, the size and shape of our courgettes and bananas, I fear that we shall continue to pay the "cost of ignorance".

Arthur James Birchall,
*16 Cheriton Close,*
*Queens Walk,*
*Ealing, London W5 1TR*

## Curious result if deferred tax provided for on discounted basis

*From Mr Tony Wedgwood.*

Sir, Lex refers to the possibility of establishing deferred tax provision on a discounted basis ("Deferred tax", September 28). The wind is already blowing in that direction. In the furore over the provisioning aspects of FRS7, many people may not have noticed its reference to the discounting of long-term monetary items. It does not actually say that it should apply to deferred tax, but this is the implication.

However, until deferred tax is put on to a more rational basis, this could lead to the rather curious result that deferred tax provisions would be discounted if they come with an acquisition, but not if they are internally generated.

Tony Wedgwood,
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# FINANCIAL TIMES

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Tuesday October 4 1994


## SDR wars in Madrid

When an essentially innocuous proposal to raise international liquidity promotes a near-brawl among the world's most influential economic leaders, something is clearly amiss. The representatives of the Group of Seven industrial countries and the managing director of the International Monetary Fund clashed over the issue on Sunday, mainly because each had an exaggerated sense of what was at stake. Their inability to resolve their differences is regrettable, not merely for developing countries which would have benefited from Mr Michel Camdessus's proposal, but for the G7's ability to adapt to the fact that it is no longer the only game in town.

Mr Camdessus's proposal for a new allocation of special drawing rights – the IMF's reserve currency – has been around for some years. Justifying such an injection of liquidity into the global financial system means answering two potential doubts: first, about whether it is strictly needed; and second, whether it will be globally inflationary.

Mr Camdessus claims that a low level of reserves is putting unnecessarily harsh constraints on the import capacity of some developing and post-Communist countries. Many developing countries now have access to alternative, private sources of financing; the case for supplementing these with IMF resources would appear to be quite weak. But Mr Camdessus is correct to point out that not all countries are so fortunate, and may need further emergency assistance from the fund.

Providing transitional help to developing countries in macroeconomic distress is one of the least controversial aspects of the IMF's role in the world. Such countries might be supported by other means – by enhancing the fund's resources for making structural adjustment loans, for example. But the managing director clearly believed that a proposal which did not require individual members to contribute the extra funds directly would have more chance of success.

Neither Mr Camdessus's proposal nor the compromise agreed over the weekend among the G7 countries themselves was an optimal solution to the problem he identifies.

But neither in itself was likely to prove highly inflationary either. The sums involved were simply too small. In truth, Sunday's stand-off in Madrid owed less to this concern than to the fact that issues of much greater importance were thought to be at stake: namely, the existence of a global "capital shortage" and the future role of the IMF.

The fear that rising investment demand is putting upward pressure on global real interest rates is unlikely to go away. But just as the future course of global inflation will not be altered by a phased $23bn increase in SDRs, nor will such an injection alter the fact that net saving rates in Europe and elsewhere are currently too low. Mr Camdessus and the G7 representatives did themselves a disservice by appearing to suggest it could do either.

## Wrong turn

Slovakia is at a crossroads, and at the weekend voters steered their country down the wrong path. Offered politicians who promised market reforms and liberal treatment of Slovakia's ethnic minorities, the electorate instead endorsed the anti-reform platform of former prime minister Vladimir Meciar, who is now likely to return to office in coalition with more extreme nationalist allies.

Unlike the former communists now ruling Poland and Hungary, Mr Meciar and his coalition partners have the potential and perhaps the will to turn Slovakia off the road of economic reforms and political tolerance.

The election results are bad news not just for Slovakia, but for the rest of central Europe. Bratislava's next government could exacerbate ethnic tensions elsewhere in the region and provide an excuse for west European lobbies seeking to impede central Europe's access to the EU.

Mr Meciar's promise to freeze Slovakia's fledgling privatisation programme is the worst economic omen. Czechoslovakia's velvet divorce bequeathed to Bratislava the lion's share of rust-belt industries. The obvious difficulty of reforming these industries probably explains why Slovak voters lost their nerve at the weekend. But such reforms are vital if their country is to compete with its increasingly prosperous neighbours. Mr Meciar may find it difficult to deliver his promised moratorium on privatisation – nearly 1m Slovaks have already bought privatisation vouchers and factories have already been earmarked for sell-off. But foreign investors who had shown interest in Slovakia will be discouraged.

More worrying for the rest of Europe is the fact that the symbiotic relationship in Slovakia between economic stagnation and extreme nationalism is likely to grow stronger. The fear of painful economic transition which pushed Slovaks into Mr Meciar's arms also rewarded extreme nationalists with a surprisingly high 5.6 per cent of the vote. Under its new leaders, Bratislava is likely to step up discrimination against the country's 560,000-strong ethnic Hungarian minority, a prospect which understandably disturbs neighbouring Hungary.

There is still hope that, as Mr Meciar confronts the tricky task of forming a coalition government and the even greater challenge of reviving Slovakia's economy, he, like former communist leaders in Hungary, will embrace market reforms and set aside ethnic quarrels.

As for western European countries, they should not rush to punish Mr Meciar: that would only push Slovakia further into its self-imposed isolation. But they should assure Slovakia's neighbours, particularly Hungary, that pursuit of more enlightened ethnic policies will be recognised and rewarded, and insist that Slovakia will not be allowed to hold up its more reform-minded neighbours' progress towards EU membership.

## Scrambled policy

Europe has been better at spawning regulations on the ownership of television channels than it has at encouraging new services. The latest debate – over ownership of digital satellite stations – shows signs of perpetuating the confusions of the past.

Last week, British terrestrial broadcasters voted against proposals for a new code of conduct put forward in Geneva by the steering board of the European digital video project. The group, which brings together 145 organisations, is attempting to set standards for digital television, which could eventually deliver many more channels than conventional analogue signals. Although a majority of members adopted the code, the row is unlikely to die away.

The UK broadcasters' concern is that the code will permit a high degree of vertical integration which could stifle new channels. In particular, they fear that one organisation could own the encryption or "scrambling" system for delivering programmes, as well as owning the programmes. In controlling the means of delivery – in acting as "gatekeeper", in the industry's phrase – a company might prevent others gaining access to audiences unless they paid an exorbitant toll fee.

Many are sceptical of the potential of digital television. But the issue has gained heat partly because of the success of satellite channels, delivered by conventional analogue signals, which gain some of their revenue from subscription. These include BSkyB, in which Pearson, owner of the Financial Times, has a stake, as well as Canal Plus in France and Filmnet in the Benelux countries. These channels have demonstrated that where audiences are small, subscription rather than advertising may be an essential source of revenue. They also show that the first company to set up a means of encrypting programmes and then collecting subscription revenues has a natural monopoly.

UK terrestrial broadcasters have been slow to appreciate the power of such combinations; they made little mention of the issue in their comments on the 1990 Broadcasting Act. But their attempts to prevent the same pattern emerging in digital television are misguided. They give little weight to the argument that the company which bore the initial risk of backing one delivery system should get some reward. Moreover, new systems are emerging to break the subscription monopoly, notably cable.

Vertical integration in satellite television provides a powerful market position, which is capable of being abused. But there are better solutions than banning particular configurations. In particular, companies should press for more information about the gatekeeper's terms for allowing access to the subscriber base, and to report abuses promptly to regulators. They should avoid, though, pressing for rules which threaten to add another ill-thought out layer to one of the trickiest areas of European competition policy.

# Spanner in the Rolls-Royce engine

**Peter Norman** explains the arcane issue that has caused a split between the IMF and its principal shareholders

Clockwise from left: Michel Camdessus, Lloyd Bentsen, Kenneth Clarke, Manmohan Singh, Hans Tietmeyer

Mr Michel Camdessus, managing director of the International Monetary Fund, has pulled off a remarkable feat.

He has elevated the special drawing right (SDR), the IMF's own reserve asset, from almost total obscurity into the stuff of headlines.

On Sunday, the IMF's policy-making Interim Committee failed to agree a modest increase to the world's currency reserves, prompting acrimony over Mr Camdessus's role in pursuing the issue. There was concern among the Group of Seven leading industrial countries that the IMF managing director had found himself at odds with his principal shareholders, including Mr Lloyd Bentsen, the US Treasury secretary.

While the clash will not have any significant effect on the fortunes of the global economy, it raises questions about the future authority of the Fund and Mr Camdessus's position as its head in his remaining two years and four months of office.

The issue about which so much heat has been generated is arcane, even by the standards of international monetary diplomacy.

The SDR is an artificial currency unit, a composite of the dollar, D-Mark, yen, French franc and sterling which is at present worth about $1.47. SDRs were first created in the late 1960s after years of growing concern over a perceived shortage of international liquidity, but now just account for little more than 2 per cent of non-gold reserves.

For some years, Mr Camdessus, backed by the developing countries, has been pushing for a general allocation of SDRs to be distributed among the IMF's 179 members. Before the current IMF meeting, he proposed a 36bn SDR allocation. This stance was backed by the developing countries, some of which put forward similar plans.

Under the IMF statutes, a general allocation is permissible, provided there is a "global need" for such reserves and provided it wins the support of 85 per cent of the IMF members' votes in the Fund board.

To demonstrate global need, Mr Camdessus pointed to an anticipated expansion of demand for non-gold reserves of all IMF member countries of about 400bn SDRs over the next five years. He said 55 per cent of all countries and 67 per cent of the former communist states "in transition" have international reserves equivalent to less than 12 weeks of imports.

Mr Camdessus's proposed allocation would meet about 9 per cent of the forecast expansion in demand for reserves. This would be modest in relation to the size of the world economy, but Mr Camdessus has pursued his case with extraordinary passion. He genuinely believes the SDR should live up to the plans of its inventors and become a central part of the international monetary system. To achieve this, he believes a boost in its reserve role from the current low level is crucial.

Germany, together with the US, UK and other members of the G7, have long argued against such money creation by the IMF, declaring it to be unnecessary, potentially inflationary and creating a dangerous precedent. Mr Hans Tietmeyer, Bundesbank president, insisted that with today's large international capital markets there was no "global need" for new reserves.

However, Germany and the other big industrialised countries recognised that the 37 countries that had joined the IMF since the last issue of SDRs in 1981 were victims of an injustice. These countries, many of them former communist states, had no SDRs in their reserves.

Germany was therefore prepared to back a compromise proposal put forward by Mr Kenneth Clarke, the UK chancellor, and Mr Bentsen for a special allocation of 16bn SDRs. This would benefit all IMF members, but the newcomers and certain poor developing countries in particular.

However, it would necessitate a change in the IMF statutes involving parliamentary ratification in most member states, in addition to requiring an 85 per cent majority of the IMF's votes. These hurdles, the Germans felt, were high enough to dispel any idea that the IMF could become a money-creating machine.

The UK-US compromise on the SDR was presented in a package together with plans to raise the annual access limits to the IMF's normal loan facilities for countries in economic difficulty. Also envisaged was a boost to the systemic transformation facility (STF), which the IMF has set up as a temporary source of support for former communist countries.

UK officials always said it would be difficult to secure agreement for the package. But hopes rose on Saturday because the G7, representing about 45 per cent of the IMF's votes, gave it unanimous backing. The agreement of France was seen as especially significant and raised hopes that Mr Camdessus, a former director of the French Treasury and central bank governor, would fall into line with his compatriots.

Instead, Mr Camdessus stuck with his proposal and carried the developing countries with him, with the support of Mr Manmohan Singh, the influential Indian finance minister, who headed a G9 group of developing country representatives in the Interim Committee.

It was clear on Sunday that neither the UK-US nor the Camdessus proposals could command the necessary 85 per cent majorities. The proposed strengthening of the STF failed for the same reason. However, agreement was reached that the access limits to loan facilities should be raised from 68 per cent to "at least 85 per cent of quota" or membership rights.

Some poorer IMF members will be the losers from Sunday's events. British officials estimated that the UK-US plan would have boosted Russia's reserves by about $1.47bn and those of the entire former Soviet Union by $2.35bn. Low-income developing countries stood to gain $2.49bn and lower middle income countries $4.65bn.

With hindsight, some G7 ministers admitted it was bad tactics to publicise their accord on the UK-US plan. This gave the impression that they were giving the IMF membership a "take it or leave it" offer.

But they also believe that Mr Camdessus made a bad mistake in thinking that he could break the unity of the G7. One participant observed that he had ignored advance warnings that the biggest IMF shareholders would not support a general allocation. By pushing his plan in the meeting, he forced them to choose between their own club and the IMF managing director; they opted for the G7.

Mr Camdessus's performance is seen by G7 officials as an extraordinary lapse by a man regarded as a skilled operator and, until now, as a very able managing director of the IMF. It has also raised questions about the role of the IMF managing director. Was he right to lead the charge for the developing countries or should he have campaigned for the compromise backed by his biggest members? Should he behave like a politician or an official?

After Sunday's meeting, an unrepentant Mr Camdessus insisted he had a right to promote policies of his own and vigorously back them, even if they ran counter to the ideas of the biggest IMF members.

Yesterday, ministers attending the IMF meeting were involved in a damage-control exercise, cultivating a "business as usual" air. The talk was of new discussions at the IMF's next spring meetings, perhaps even a special Interim Committee gathering on the question.

But the weekend row has cast a cloud over the IMF in this its 50th anniversary year.

Mr Camdessus's stand may eventually be validated by the great sweep of history, as the industrialised countries lose economic clout to the so-called developing world. But by battling with his principal shareholders, and the US in particular, the IMF managing director has thrown a spanner in the works of what has always been seen as the Rolls-Royce of the international financial institutions.

UK consumers may be willing to pay more, but they are also more cynical, says **Diane Summers**

# Mind the quality

Land Rover unveils its new-generation luxury Range Rover, while Jaguar invests heavily in a new range of luxury saloons. At the same time, Louis Vuitton rations its customers to one of its prestige handbags each, and supermarkets fill their freezer cabinets with Häagen-Dazs and other expensive "adult" ice creams.

These are all signs that manufacturers believe that, now the recession is over, demand for premium-priced products will mount.

Their confidence, according to the Henley Centre, the forecasting specialist, is not misplaced. However, they cannot relax completely: Henley also reveals the emergence of the "cynical consumer", who is wise to marketing ploys and in relentless pursuit of value for money.

For the time being, consumers in the UK seem willing, once again, to seek out and pay for quality, according to Henley's annual consumer attitudes survey* of 2,000 adults in Britain, published this week. This should cheer up the owners of big-name consumer brands, which have seen their margins eroded by cut-price and own-label rivals.

The responses to one question – "Do you agree that highest price usually means you get the highest quality?" – show how attitudes have changed. "In the boom years between 1985 and 1989, there was a strengthening association between high price and high quality," says Henley. "Then, as the recession bit, this association weakened.

"A low point was reached in either 1991 or 1993, depending on the market, but since then a recovery has taken place such that in most . . . markets, the strength of the association has reached, or surpassed, the levels of 1989."

This sounds like good news for manufacturers. Less encouraging, however, is what appears to be a contradictory finding in the report. When asked whether they agreed with the statement "When shopping always look for the cheapest items", 35 per cent of Henley's sample said yes this year – up from 32 per cent in 1993 and 29 per cent in 1989 – and Henley forecasts this price pressure will continue.

Henley says the two findings are not inconsistent. Consumers are prepared to pay a premium for quality – what is at issue is the size of that premium. In the past, some brand owners "allowed unsustainable price differentials to develop to the point at which the consumer (prompted by recession) revolted", it says. The lesson is that price premiums can be charged, but their size needs to be monitored by manufacturers alongside quality.

Not everyone agrees with Henley that consumers' increased awareness and insistence on value for money are here to stay. Winston Fletcher, chairman of the Advertising Association, which represents both brand owners and advertising agencies, is sceptical.

"The changes may be more temporary than many now think. There is always a tendency to overestimate the significance of contemporary moods. It will all depend on whether the economy continues to be buoyant for any length of time." Three to five years of growth would see consumers giving a lower priority to price, in his view.

For the present, however, consumers are demanding quality and value – as well as higher standards of service and wider choice. Henley's data suggest that, even in the depths of the recession, pressures on manufacturers and retailers to provide better service and choice continued to grow.

Archie Norman, chief executive of Asda, the retail group, agrees: "We've had an explosion in consumer choice. Customers have been shopping around and they're aware of the differences.

"That doesn't just mean they're more price conscious – they're more value conscious. I think that is a permanent change. They'll pay a premium for better value, but they won't pay a premium for nothing extra."

In the past, brand owners' strategy for attracting consumers to expensive goods was to throw money at an advertising agency. Henley suggests this may no longer be so successful, owing to the emergence of what it terms the "cynical consumer", who is sceptical about advertising claims and "unwilling to accept the messages of the marketing community at face value".

Those born since the war have grown up surrounded by mass-media advertising and can spot overblown claims and the hard sell. Experience means they know, says Henley, that "the real message of all advertisers is, crudely put, 'we want your money' ".

Fletcher, of the Advertising Association, says: "People understand the wiles of the advertiser very well. The average 35-year-old has seen 150,000 different commercials and seen most of them more than six times. It has been shown that infants can differentiate between commercials and programmes from the age of about three onwards."

Overall, the message to brand owners is that, as Henley says, consumers will retain "a willingness constantly to reappraise the price-quality equation". In spite of economic recovery and a reviving interest in high quality, the "cynical consumer" is likely be a fixture for some years to come.

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# OBSERVER

## Pasternak pastiche

■ She was "a frail bird, whose wings had been torn apart" and he was a "skilled, adventurous lover" who didn't know the meaning of bulimia. Welcome to *Princess in Love*, Anna Pasternak's account of the romance between the Princess of Wales and Captain James Hewitt.

The book has the unique virtue of having "sickened" Dame Barbara Cartland, the 91-year-old authoress, outraged the unshockable publicist Max Clifford, and caught virtually every British tabloid editor on the hop.

Indeed, one wonders whether someone in the dirty tricks department at Tory central office might have had a hand in it. It certainly helps divert the spotlight from Labour's Tony Blair love-fest.

But back to Ms Pasternak, great-niece of the Dr Zhivago writer. She even obliges with a cut-out-and-keep guide to the qualities which you need if you want to get sybaritic with a princess of your choice: "The languid arrogant walk, the right shoes, the laid-back drawl; and the nonchalance to sail through any social situation."

What she cannot provide is any indication of how to make true love last, although there are good recommendations for what to do when things go sour (listen to Pavarotti, go and fight in the Gulf war, hold your head in your hands for a few moments and contact a publisher).

The only possible way of making this ludicrous book at all readable is to substitute the words "monstrously lucrative" for the word "special" throughout, as in the author's note: "It seemed to me that the love that Princess Diana had shared with another man was too special to remain secret."

## Exercise room

■ Spotted in the postroom of a large London publishing company: "This department requires no physical fitness program; everyone gets enough exercise jumping to conclusions, flying off the handle, running down the boss, flogging dead horses, knifing friends in the back, dodging responsibility and pushing their luck."

## I'm all right Jack

■ It's all right for some. Neil Kinnock, preparing to depart for his £103,500-a-year (plus expenses) sojourn in Brussels, yesterday offered the Labour conference the definition of "rich" which the present party leadership has consistently refused to disclose.

Anyone earning over £60,000 a year should consider themselves in that category and thus come to terms with the possibility of higher taxes, Kinnock told a Blackpool fringe meeting. He, of course, will not be paying British taxes, Tory or Labour.


'I'd sell my grandmother and her ideology to get elected'

## Older men

■ Ructions within the City's Court of Aldermen last week suggest that the principal of Buggins' Turn has gone ever so slightly out of fashion as a means of producing Lord Mayors.

Not only has alderman Neil Young resigned, but it is understood that two other names will not "go forward". Bryan Toye, chairman of Toye & Co, a company making civil and military regalia, seems to want to slide down the list a bit.

Tony Bull, a partner in surveyors Walter Bull, who when elected 10 years ago was initially vetoed by his fellow aldermen, has also heard his name will not now go forward. Unlike Young, he has not resigned.

Meanwhile, Old Etonian Young's departure has sparked the re-emergence of a rather unlikely ally in the form of Dennis Delderfield, a liveryman who edits a rag called the City of London & Docklands Times and who used to be on the Court of Common Council until he was declared bankrupt two years ago. He would like aldermen elected every four years – at present, once elected, they can hang on until they are 70.

The Corporation of London knows him only too well. He played a big part in orchestrating the Smithfield meat traders' (largely successful) battle over funding of their market. His grasp of the arcane world of City politics seems to be as keen as his tongue is vicious.

Dennis the Menace has found another cause.

## Excess slop

■ If Ms Pasternak gets upset at the reviews of her work mentioned in Observer's first item, she should spare a thought for poor old Dan Moldea.

Moldea has just spent a small fortune taking the New York Times all the way to the US Supreme Court because the paper's reviewer had rubbished his book, *Interference: how organized crime influences professional football*.

The Supreme Court has thrown out Moldea's $10m libel lawsuit on the grounds that the NYT review was "a supportable interpretation of the author's work".

The review, written by Times sportswriter Gerald Eskenazi, concluded that there was "too much sloppy journalism to trust the bulk of this book's 512 pages".

Sloppy journalism as a defence against libel? That's a new one.

## Hot-footed

■ Football talent scouts must already be booking their flights for Buenos Aires. The goalkeeper of Argentine championship leaders Velez Sarsfield – Jose Luis Chilavert – is making something of a name for himself . . . as a goal-scorer.

At the weekend Chilavert, an international player for Paraguay, scored a last minute goal with a 25-metre free kick, giving his team a 1-0 victory over Deportivo Espanol.

Chilavert begged to be allowed to take the kick, much to the obvious grumpiness of team captain Roberto Trotta.

Trotta only gave in when Chilavert refused to return to his goal. Chilavert's team-mates went wild when he scored; Trotta did not join in.

Sour grapes or what?

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Italian leader intervenes over state broadcasting

# President forces budget changes on Berlusconi

By Robert Graham in Rome

President Oscar Luigi Scalfaro has forced the Berlusconi government to make two embarrassing last-minute changes in the 1995 budget, affecting the Rai state broadcasting organisation and reform of pensions.

In so doing, Mr Scalfaro has once again been obliged to use his limited authority as ultimate guarantor of the constitution to correct the behaviour of the inexperienced five-month-old right-wing coalition.

Yesterday, Mr Gianni Letta, head of the prime minister's office, sought to play down the incident, saying: "Too much weight has been given to the president's intervention. It was merely a procedural observation." However, this contradicted Mr Scalfaro's own view of events.

Although the budget was approved early on Wednesday by the cabinet after an all-night session, the details were not available until late Friday. Indeed, the president complained he had only been given the complex and voluminous budget documentation to sign shortly before the September 30 midnight deadline.

But he had already been made aware of budget proposals to raise the annual fee paid by the Rai from L40bn ($25.7m) in 1994 to L160bn in 1995. Although this effectively restored to 1993 levels the fee paid by the Rai for the use of three television channels, it threatened to undermine the organisation's already parlous finances.

The move also highlighted the L1.2bn annual concession fee paid by the three channels of prime minister Silvio Berlusconi's Fininvest company which was negotiated as part of the late 1980s political deal allowing the media magnate to dominate commercial television.

On his own admission, Mr Scalfaro had "several" telephone conversations with Mr Berlusconi pointing out the measures would contribute to the Rai's financial ruin and appear to be favouring his own networks. Mr Berlusconi then agreed to withdraw the proposal – portraying it over the weekend as an unfortunate oversight.

It is the second time in two months Mr Scalfaro has checked the government over the Rai in the belief its behaviour was too partisan. The row also reflects the tension between the head of state and Mr Berlusconi over the latter's unresolved conflict of interest with his ownership of Fininvest.

The other change concerned the way the government was seeking to present controversial reform of the state pensions system in the budget.

The president refused to sign the budget until certain parts of the decree on pension reform were separated from the budget itself. He successfully argued pension reform was such a sensitive issue that it required full parliamentary debate and therefore should not be subjected to the automatic time limit of budget legislation that closes on December 31.

# IMF returns to business as usual after Madrid acrimony

By Peter Norman, Economics Editor, in Madrid

The world's leading industrialised countries yesterday launched a determined effort to put behind them the weekend failure to agree on a modest increase in the world's monetary reserves.

Adopting a "business as usual" approach, ministers and central bank governors underlined that Sunday's meeting of the International Monetary Fund's policy-making interim committee had made progress towards bolstering the IMF's capacity for helping countries in economic difficulty.

Officials said the committee's decision to press ahead with a temporary boost to annual access limits, which determine how much economically troubled countries may borrow from the fund in any given year, could prove a big help to both Russia and Ukraine. These countries are planning to negotiate standby credits with the IMF.

The interim committee has asked the IMF board to agree a formula that would allow members to borrow an amount equivalent to at least 85 per cent of their membership subscriptions in the fund against 68 per cent at present. Many countries, including Britain, support access limits of 100 per cent.

The Group of Seven leading industrial nations and the developing country members of the interim committee were unable to agree on an allocation of the IMF's own reserve asset – known as special drawing rights – at their meeting on Sunday.

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The talks broke up acrimoniously with Mr Michel Camdessus, IMF managing director, roundly criticised by some industrial country representatives for failing to back a G7 proposal for a selective SDR16bn ($23.5bn) allocation.

But yesterday, as delegations analysed the weekend events, hope grew that there might be some resolution of the SDR dispute in the months ahead.

Mr Camdessus told the IMF and World Bank's joint development committee that he continued "to hope that in the not too distant future, agreement will be reached" on a package comprising an SDR allocation and a strengthening of the IMF's temporary systemic transformation facility which helps former communist countries.

US officials were suggesting that a special meeting of the interim committee could be called ahead of the next scheduled IMF gathering in next spring.

This would depend, however, on Mr Philippe Maystadt, the Belgian finance minister and interim committee chairman, working out grounds for a satisfactory agreement.

French officials noted there had been considerable movement on the SDR issue compared with 18 months ago, when most big industrial countries were refusing to countenance an SDR issue and Mr Camdessus had launched his campaign for a SDR36bn general increase.

# Warburg warns of fall in profits

Continued from Page 1

and the unsuccessful defence of Lasmo against the bid by Enterprise Oil.

As a result of the poor trading performance, Warburg is reorganising its senior management structure so that decision-making becomes the responsibility of fewer people. In particular, Warburg wants to pare down the number of people on its management committees, such as the investment banking committee, which has 18 members.

However, Lord Cairns said that despite the difficult trading conditions, Warburg remains committed to running a trading book, buying and selling securities for its own account from clients. "We continue to see our clients expecting us to take risks on their behalf and risks that they will reward us for year after year."

# Markets in US and Europe hit by rate fears

By Philip Coggan in London and Frank McGurty in New York

Financial markets fell again in the US and Europe yesterday amid growing pessimism over the direction of US and UK interest rates.

US Treasury bond prices retreated on the release of data suggesting that the economy was still growing in spite of five interest rate increases by the Federal Reserve since February. A rise in the September index of the National Association of Purchasing Managers was accompanied with news that the prices component of the survey had reached a six-year high.

The figures reinforced suspicions that the Federal Reserve would soon raise interest rates again to combat inflation. That outweighed the positive effect of the partial accord reached by US and Japanese trade negotiators at the weekend to open Japan to US goods and services.

The benchmark 30-year Treasury bond was down half a point by early afternoon trading, with the yield rising to 7.86 per cent.

In London, the FT-SE 100 index fell 42.8 points to 2,983.5. UK shares were trading lower even before the purchasing managers' index report, in the wake of the profits warning from S.G. Warburg, the investment bank, and a sharp rise in the annual growth rate of M0, the narrow measure of the money supply.

M0 rose by a seasonally adjusted 7.1 per cent in the 12 months to September, well above the government's 0-4 per cent monitoring range. Given that M0 is one of the government's inflationary indicators, the jump in the annual growth rate, from 6.3 per cent in August, increased fears of a further rise in base rates this year.

However, some analysts pointed out that statistical factors had distorted M0's growth, and played down the significance of yesterday's figures.

The fall in the London market continued a volatile sequence which has seen the FT-SE 100 index rise or fall by more than 30 points on each of the last four trading days. "This volatility is going to continue until we have clear visibility on the direction of US rates," said Mr Keith Skeoch, chief economist at broker James Capel.

Although the German stock market was closed for Unity day, other European markets were also affected by a general mood of gloom yesterday. In Paris, the CAC-40 index closed 1.4 per cent lower, while in Italy, the Comit index fell 1.8 per cent.

European bond markets were also weaker with gilts and Italian government bonds down.

US bonds fall, Page 4
World stocks, Second section
London Stock Exchange, Page 39

## THE LEX COLUMN

# Warburg stumbles

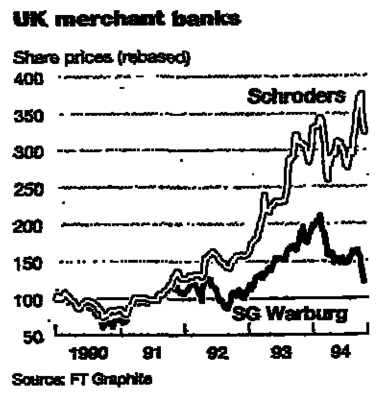
S.G. Warburg could have done without more bad publicity after its embarrassing spat with Swiss Bank Corporation over the Enterprise bid for Lasmo. It has given scant detail of what appears to be a slump in its trading income this year. Yet it would be wrong to assume that this fresh disappointment implies a misguided strategy. If there are flaws, they have more to do with implementation.

Warburg has laid itself open to the charge of complacency in two areas. With its market-making and proprietary trading activities, it aimed to enhance its profitability by focusing on the revenue line. But costs matter too, and those at Warburg are high: average staff costs per employee last year were £105,000 compared with only £81,000 at Kleinwort Benson. Second, market-making is a mug's game in weak markets, but the risks can be reduced by judicious use of derivatives, an expertise which Warburg has been slow to develop.

Had management paid more attention to these points, its strategy might now escape scrutiny. After all most investors seemed happy to accept the notion that global aspirations were natural for a bank of Warburg's size. Securitisation of financial markets is creating more business for investment banks, so Warburg is in a growth industry.

The snag, as yesterday's announcement showed, is that this means greater focus on trading with all its inherent risks. For a bank like Warburg, the price of ambition is a fall in the quality of earnings.

FT-SE Index: 2983.5 (-42.8)




### J Sainsbury

J Sainsbury's acquisition of a stake in Giant Food is consistent with the strategy of careful diversification away from UK food retailing which began nearly 20 years ago. By acquiring 50 per cent of the voting rights in the Washington-based Giant and just 16 per cent of its equity, Sainsbury has capped potential risks while paving the way to take full control in due course.

Giant will make a good fit with Shaw's, the New England food retailer which became a full subsidiary in 1987. Combined, the two companies will have turnover of $6bn and a strong position in seven out of 10 of the US's most prosperous states. There is scope for geographical expansion and possible synergies on the buying front and systems development.

The scope for rationalisation is however limited: at 4.8 per cent Giant's operating margins are lower than those Sainsbury achieves in the UK but are significantly better than Shaw's. The full benefits will only come when Sainsbury has full management control. The sooner this takes place, the better. It took five years for Shaw's to become a 100 per cent subsidiary. This delay arguably contributed to its poor earnings performance.

In the short term, the deal will not contribute materially to earnings. Nor does it answer the big strategic question of how Sainsbury can maintain earnings growth when UK food retailing is stagnating. A really significant diversification will require Sainsbury to abandon its usual caution.

### Hoechst

Hoechst's restructuring represents a cultural revolution at the world's largest chemicals group. The intention is to internationalise and make the company more dynamic and profit-orientated. The number of divisions has been slashed from 15 to seven. Each will be responsible for its own profitability, offering freedom from Frankfurt's bureaucratic bungling. The new management is younger and more international. For the first time, an American is on the board.

Hoechst's new-found dynamism is to be welcomed, especially given its previous torpor. Since 1990, operating profits have fallen more than 53 per cent, the return on assets from 11.8 per cent to 5.3 per cent. Over the same period, Bayer slashed 19,100 employees from its pay-roll. Hoechst's total edged down by just 407, although the figure does include recent consolidation of overseas subsidiaries. Not surprisingly, the company has underperformed the DAX by 35 per cent since 1988.

The biggest headache remains the drugs division – a decade ago the world's largest pharmaceuticals business, but now sixth. The portfolio is fragmented and old. More than 75 per cent of its drugs date from before 1974. Pre-research and development margins are only 24 per cent, compared with an industry average of 40 per cent. The challenge before the new management is huge. The new team may look dynamic, but it must prove it knows the difference between activity and productivity.

### Short selling

City regulators are working themselves into a tizzy over alleged market manipulation through short selling in the run-up to secondary share issues. The Securities and Investments Board has already sounded off on the subject. Now the Stock Exchange has published a consultative document outlining ways in which regulations covering short selling could be tightened. The aim would be to prevent investors artificially depressing a stock's price and then covering their positions by buying shares in an offering.

The regulators are putting the cart before the horse. Before suggesting more regulations, they first need to establish whether any abuse is taking place. Certainly, there are cases of share prices falling in the run-up to issues such as the second tranche of BT and Wellcome. But this may merely be a natural adjustment to the fact that the market is having to absorb more stock.

Regulators should also remember that issuers are adept at finding ways of supporting share prices during an offer period. Not only does a vast array of advisers mean discordant voices are often hard to find; issuers are able to refuse stock to investors who sell shares in the offer period.

Some of the rules suggested could have the effect of so tilting the playing field that share prices were artificially inflated. A wise regulator would tread warily before taking sides. The best reason for intervening would be to ensure greater transparency in share dealing. Beyond that, regulation is likely to become so heavy-handed that it stifles financial innovation.

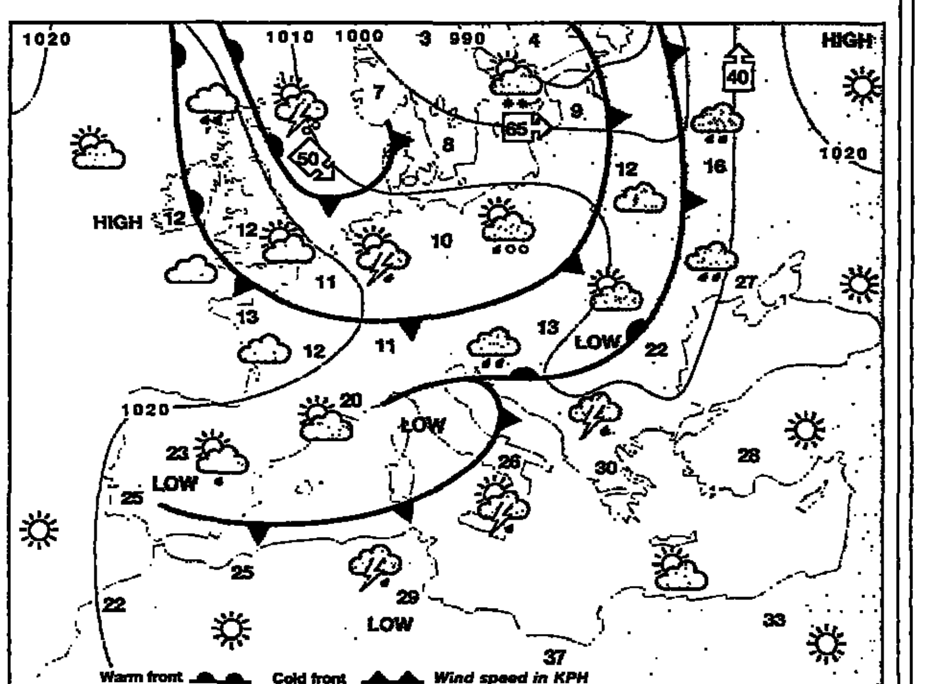
## FT WEATHER GUIDE

### Europe today

A large and active depression near the White Sea will continue to draw unseasonably cold air into northern and western Europe. Norway will be cold and cloudy with wintry showers over the sea and snow showers in the fjords. Lapland will be wintry with sub-zero temperatures and occasional snow flurries. Strong and chilly north-westerly winds will push showers, some with sleet or hail, into the northern UK, the Low Countries, northern Germany and Denmark. High pressure, stretching from Ireland to central Europe will promote sunny periods from northern France to Poland. The north slopes of the Alps will have cloud and intermittent rain which will turn to sleet or snow above 800 metres. Showers will develop over southern Italy and the Balkans but summer-like conditions will continue elsewhere in the Mediterranean.

### Five-day forecast

High pressure near Ireland will intensify and move onto the continent. There will be settled conditions and cold nights from England to Belarus. It will remain unsettled and warmer from Scotland to Scandinavia. Showers and thunder will develop over the western and central Mediterranean.




Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | sun | 37 |
| Accra | cloudy | 30 |
| Algiers | fair | 25 |
| Amsterdam | shower | 11 |
| Athens | fair | 29 |
| Atlanta | sun | 25 |
| B. Aires | sun | 18 |
| B.ham | cloudy | 11 |
| Bangkok | cloudy | 34 |
| Barcelona | shower | 22 |
| Beijing | fair | 20 |
| Belfast | shower | 10 |
| Belgrade | thund | 24 |
| Berlin | shower | 9 |
| Bermuda | rain | 29 |
| Bogota | shower | 20 |
| Bombay | fair | 33 |
| Brussels | fair | 10 |
| Budapest | fair | 16 |
| C.hagen | hail | 9 |
| Cairo | fair | 32 |
| Cape Town | fair | 19 |
| Caracas | fair | 30 |
| Cardiff | fair | 11 |
| Casablanca | fair | 22 |
| Chicago | sun | 17 |
| Cologne | shower | 10 |
| Dakar | fair | 30 |
| Dallas | fair | 30 |
| Delhi | sun | 34 |
| Dubai | sun | 35 |
| Dublin | cloudy | 11 |
| Dubrovnik | thund | 24 |
| Edinburgh | cloudy | 11 |
| Faro | sun | 24 |
| Frankfurt | shower | 10 |
| Geneva | shower | 13 |
| Gibraltar | fair | 23 |
| Glasgow | rain | 12 |
| Hamburg | hail | 9 |
| Helsinki | windy | 6 |
| Hong Kong | fair | 31 |
| Honolulu | shower | 31 |
| Istanbul | fair | 28 |
| Jakarta | rain | 31 |
| Jersey | fair | 11 |
| Karachi | sun | 35 |
| Kuwait | sun | 38 |
| L. Angeles | fair | 23 |
| Las Palmas | sun | 27 |
| Lima | cloudy | 20 |
| Lisbon | fair | 22 |
| London | fair | 12 |
| Lux.bourg | shower | 9 |
| Lyon | cloudy | 13 |
| Madeira | cloudy | 25 |
| Madrid | shower | 21 |
| Majorca | shower | 24 |
| Malta | fair | 28 |
| Manchester | cloudy | 11 |
| Manila | shower | 31 |
| Melbourne | shower | 13 |
| Mexico City | fair | 21 |
| Miami | cloudy | 31 |
| Milan | fair | 21 |
| Montreal | fair | 16 |
| Moscow | rain | 15 |
| Munich | cloudy | 9 |
| Nairobi | fair | 29 |
| Naples | thund | 25 |
| Nassau | fair | 32 |
| New York | cloudy | 18 |
| Nice | fair | 21 |
| Nicosia | sun | 33 |
| Oslo | fair | 8 |
| Paris | fair | 12 |
| Perth | fair | 18 |
| Prague | shower | 9 |
| Rangoon | shower | 35 |
| Reykjavik | cloudy | 7 |
| Rio | shower | 25 |
| Rome | shower | 24 |
| S. Frsco | fair | 24 |
| Seoul | shower | 18 |
| Singapore | shower | 32 |
| Stockholm | snow | 8 |
| Strasbourg | cloudy | 10 |
| Sydney | rain | 22 |
| Tangier | sun | 22 |
| Tel Aviv | sun | 33 |
| Tokyo | drzzl | 24 |
| Toronto | fair | 16 |
| Vancouver | sun | 20 |
| Venice | thund | 20 |
| Vienna | cloudy | 12 |
| Warsaw | fair | 10 |
| Washington | fair | 21 |
| Wellington | cloudy | 11 |
| Winnipeg | fair | 11 |
| Zurich | shower | 11 |

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FINANCIAL TIMES
# COMPANIES & MARKETS
Tuesday October 4 1994

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## IN BRIEF

### Deutsche move on Morgan Grenfell

Deutsche Bank is expected later this month to announce closer co-operation with its merchant banking subsidiary Morgan Grenfell which could lead in several years' time to the integration of their investment banking operations. Deutsche will also try to combine and bolster its equity broking activities in Europe. Page 20

**CGS reaps rewards of Genesis programme**
Ailing French-based computer services group Cap Gemini Sogeti has forged a multinational structure from a disparate range of operations. Dubbed Genesis, the ambitious restructuring programme could help it return to profit in 1995. Page 23

**Banesto rescue plan bears fruit**
Mr Alfredo Sáenz is putting his reputation as Spain's most famous banking troubleshooter to the test in his new role as chairman of troubled Banesto. First-half figures suggest a rescue plan involving a Pta180bn ($1.4bn) capital injection, the purchase of Pta285bn worth of non-performing assets and a zero-interest loan of Pta315bn to offset current losses is working. Page 20

**AMD wins deal with Digital**
Strong demand for microprocessors, used in personal computers, has helped Advanced Micro Devices to achieve record third-quarter sales. The Silicon Valley chip maker also announced a contract to provide microprocessors to Digital Equipment, one of the fastest growing PC manufacturers. Page 22

**Purchases help Badgerline**
The acquisition of two regional bus companies helped Badgerline, the UK bus group to more than double its interim pre-tax profits to £5.38m ($8.5m). Page 26

**Roadblocks for Australian insurer**
NRMA, Australia's largest motor insurer, wants to move to shareholder-owned status before the end of the year through a stock market flotation. But NRMA is running into surprising roadblocks as it pursues the demutualisation path. Page 24

**Revival in Latin American eurobonds**
Greater political and economic stability in Latin America helped the region's eurobond market revive during the third quarter of this year, following two successive quarters of decline. Eurobonds were also boosted by a better tone in the US Treasury market. Page 25

**US practice alters company's value**
Using US accounting methods, in which goodwill is written off through the profit and loss account over 40 years, earnings at Attwoods, the UK waste services group, would be more than halved, according to the offer document for the group published by Browning-Ferris Industries, which launched a hostile £364m ($575m) bid last month. Page 27

**Merger and acquisiton sector buoyant**
With the US takeover market just completing its most active quarter so far, the merger and acquisition advisory business remains one of Wall Street's bright spots, with a total of $3bn in fees earned so far this year. Page 22

**Companies in this issue**



**Chief price changes yesterday**

| NEW YORK ($) | | | |
|---|---|---|---|
| **Rises** | | | |
| Alcoa | 85⅞ | + | 1⅛ |
| CareNetwork | 24 | + | 13½ |
| Info Amer | 5¾ | + | 1⅞ |
| **Falls** | | | |
| AMD | 28 | - | 1⅞ |
| Micron Tech | 33½ | - | 1⅛ |
| Texas Ins | 67⅞ | - | 1⅞ |

| PARIS (FFr) | | | |
|---|---|---|---|
| **Rises** | | | |
| Cred Lyon | 430 | + | 42 |
| Ecco | 853 | + | 21 |
| **Falls** | | | |
| AGF | 212 | - | 12 |
| Club Med | 441.1 | - | 17.9 |
| Fonc Lyon | 583 | - | 62 |
| UFB Locab | 359 | - | 31 |

| TOKYO (Yen) | | | |
|---|---|---|---|
| **Rises** | | | |
| Inara Chem | 987 | + | 29 |
| Toshoku | 808 | + | 18 |
| **Falls** | | | |
| Ando Cons | 612 | - | 28 |
| Central Fin | 465 | - | 20 |
| Daishowa | 753 | - | 46 |
| Fujita Kanko | 1860 | - | 110 |

Frankfurt closed. New York prices at 12.30pm.

| LONDON (Pence) | | | |
|---|---|---|---|
| **Rises** | | | |
| AAF | 40 | + | 6 |
| Alliance Res | 11¾ | + | 2½ |
| Blockleys | 67 | + | 4 |
| Doeflex | 123 | + | 7 |
| Flextech | 425 | + | 10 |
| Kode Intl | 58 | + | 7 |
| **Falls** | | | |
| AromaScan | 75½ | - | 5½ |
| Asda | 62¾ | - | 3½ |
| BWD Securities | 94 | - | 8 |
| David Brown | 220 | - | 14 |
| Dixon Motors | 178 | - | 7 |
| Eastern Elec | 707 | - | 35 |
| Eidos | 305 | - | 30 |
| Howtal Whiting | 215 | - | 10 |
| Herring Baker | 28 | - | 16 |
| Lon Forfaiting | 154 | - | 12 |
| Lookers | 180 | - | 8 |
| Millgate | 19½ | - | 3½ |
| Scottish Power | 331½ | - | 24½ |
| Sharelink | 181 | - | 15 |
| Shoprite | 28 | - | 4 |
| Smith New Court | 334 | - | 40 |
| Utd Friendly B | 460 | - | 33 |
| Warburg (SG) | 569 | - | 101 |

# JAL to disclose huge currency hedge loss

By William Dawkins in Tokyo

Japan Air Lines is preparing to disclose a long-suspected, unrealised foreign exchange loss amounting to many billions of yen, the result of a misjudged currency hedge.

Japan's largest airline refused to confirm reports that its unrealised loss stood at Y45bn ($450m). It said details of JAL's finances would be published with interim earnings on October 28.

A company official did confirm the existence of a 10-year $3.6bn forward currency contract, taken out in 1986. JAL started to take out forward dollar agreements after the 1985 Plaza Accord to curb the dollar, at the time valued at Y240. According to market reports, unconfirmed by JAL, the airline contracted to buy dollars at an average rate of Y185, against the current rate of Y99.58.

JAL is among several large Japanese companies expected to declare heavy currency losses when they announce first-half results at the end of this month and early in November.

Until now, companies have been able to subsume currency losses in depreciation and operating costs, but the Finance Ministry has told listed companies to declare unrealised profits or losses from forward currency trading, from the present tax year.

JAL needs to raise an average of $800m each year for buying aircraft, about 40 per cent of which it finances through forward rate agreements, with the remainder raised at current exchange rates, the official said.

The aim of the new disclosure rules, introduced from the end of March, is to avoid shocks, like the Y165bn foreign exchange loss on unauthorised dealings at Showa Shell, an oil refiner, in February last year and the Y152.5bn currency deficit from Kashima Oil, another refiner, last April.

The initial indications of JAL's loss have already caused a mild shock, sending the airline's share price down 1.3 per cent to Y737 in Tokyo yesterday.

Securities analysts had assumed that the airline would be charging a loss of that order against published profits in 1996 and 1997. "They have been quietly swallowing foreign exchange losses of this size, year-in year-out," said Mr Paul Smith, securities analyst at James Capel Pacific.

The average market guess is that JAL has charged a total of Y155bn of foreign exchange losses to operating profits over the past six or seven years, he said.

There was therefore no reason to change JAL's forecast of a turnround to a Y1bn pre-tax profit this year, from a Y26.16bn loss in 1993. If anything, JAL appears to be making use of better than expected revenues in the first half of this year to close currency contracts quickly, Mr Smith said.

# Sainsbury buys $325m Giant holding in second US foray

By Neil Buckley in London

J. Sainsbury, the UK's largest grocery retailer, is strengthening its presence in the US by taking a $325m stake in Giant Food, the Washington DC-based supermarket chain. The deal is Sainsbury's second foray into the US, after it took control of the Shaw's supermarket chain in the north-eastern US in 1987. It gives the UK retailer a strong position on the eastern seaboard, and a trading presence in seven of the 10 wealthiest US states.

Giant, the 15th-largest US food retailer, has 107 stores in the Washington DC metropolitan area, including surrounding counties in Maryland and Virginia, and 42 in or around Baltimore, Maryland. It dominates these local markets – with 44 per cent of the Washington DC grocery market – and made a pre-tax profit of $151.8m last year on sales of $3.57bn.

Sainsbury is acquiring 9.5m non-voting "A" shares, giving it 16 per cent of Giant's equity, and 125,000 "AL" voting shares. It will have 50 per cent of voting rights and the right to elect three of Giant's seven board directors.

The total consideration is $325m in cash, funded from borrowings and cash resources. The shares are being acquired from family members of the late Mr Jac Lehrman, co-founder of Giant. The remaining 50 per cent of voting shares are owned by the other co-founder and chairman, Mr Israel Cohen, 82. Mr Cohen has no children involved in the business, but Sainsbury would not comment on whether it had first refusal on Mr Cohen's shares in the event of his death or a decision to sell.

"This is very much a first step," said Mr David Sainsbury, chairman. "We will see how things develop. We regard the North American market as one of the major areas of growth for the group in the future," he added.

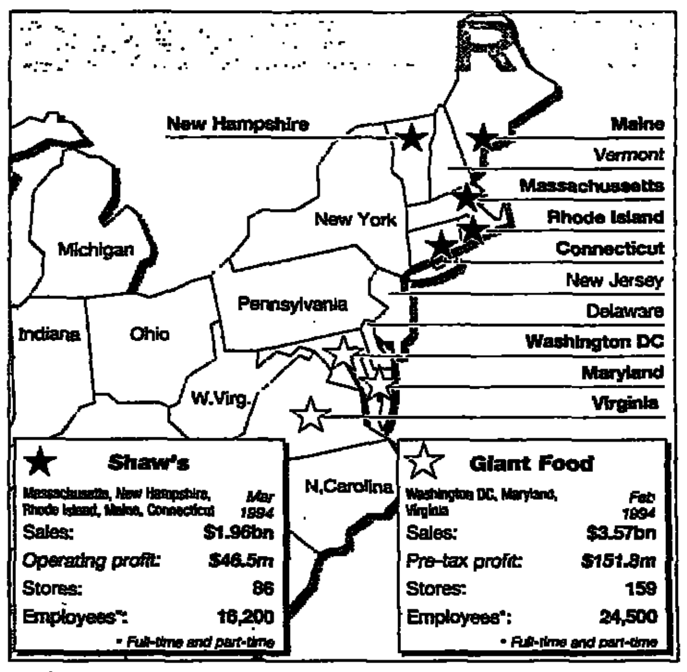
Mr Cohen welcomed the deal, saying he looked forward to a "productive relationship".

Giant plans to expand into the surrounding states of Delaware, Pennsylvania and New Jersey, where it has identified 36 possible locations. It expects to open at least six stores annually.

Mr Sainsbury said this would take it into states where Shaw's was also planning to expand. He added there was much scope for joint buying between the chains and Sainsbury in the UK, and for exchange of expertise in areas such as distribution and systems.

After a slow start, Sainsbury has more than doubled operating profits in Shaw's over the past seven years, through centralising distribution, introducing "value-added" services such as pharmacies, and increasing the level of higher-margin own-label products to 25 per cent – compared with a 14 per cent average for US food retailers.

Lex, Page 18
Shoprite warning, Page 28




# Warburg's woes give UK bankers the shivers

## Profit warning raises questions about integrated strategy

For British investment banks watchful of the experience of New York firms and already facing the prospect of severe trading losses, yesterday's news from S.G Warburg could not have more worrying. Interim profits for the group, the largest in the UK investment banking sector, will be less than half those in the 1993 period. Given that asset management has held up, that implies that profits from investment banking have almost totally dried up.

Warburg, like the integrated US investment banks which reported sharply lower first-half results, has suffered from volatile bond, equities and derivatives markets. Yesterday's news still came as a surprise. "I was really astonished," said Mr Martin Cross, analyst at UBS. "I had not entertained that profits could be £100m ($150m) lower."

It appears unlikely, however, that there will be any immediate moves to sack staff or withdraw from key businesses. "I suspect that there will be a tightening of the cost line but no major review of strategy, no major soul-searching," said Mr Philip Gibbs, analyst at Barclays de Zoete Wedd.

Nor do Warburg's rivals expect any abrupt change in strategy. "I wouldn't have thought for a minute that they would make a decision like that based on one set of results," said the head of marketmaking at one of Warburg's leading competitors.

There appears little prospect of an upturn in trading profits. Warburg's performance also prompts questions as to the profitability of market-making and the sense of Warburg's strategy of becoming an integrated investment bank. "The problem is that these bad times don't last long enough," said the head of operations at another large investment bank. "If they did, there would be a good shake-out." But the so-called integrated approach that Warburg has taken – emulating the model set by its larger US competitors – is a strategy which requires a significant trading presence. It assumes that without trading activities, investment banks cannot compete for the primary market business of underwriting and placing large blocks of securities, nor can they act effectively as a broker between buyers and sellers.

"If you deal in secondary markets (buying and selling securities of a particular issuer), you have a much better chance of getting primary market (underwriting new issues) business. This is the gospel now," says Mr Gibbs.

The largest US investment banks have pioneered the integration of various businesses into a single package, to meet the myriad needs of a corporate client. Such integrated services do not require a move away from trading activities, but the use of marketmaking, proprietary trading or even the creation of derivatives products for individual clients, to generate fee-based income. The advantage of this is that it balances the low-return but more constant income derived from fees and commissions against the highly cyclical gains from trading activities.

For all the strategic logic of Warburg's attempt to turn itself into a full-service investment bank, it has been an expensive venture. "To protect one business - corporate advisory - you go into another which has very low returns and is incredibly risky and competitive", Mr Gibbs says.

Warburg is more heavily exposed to trading profits – profits derived from using its own capital to buy and sell securities – than most of its competitors. Warburg denied that it had lost money on trading on its own account. But Mr David Poutney of stockbroker Collins Stewart was sceptical. "I perceive they have blown their socks off on proprietary trading. If you look at the others they are all ahead at the half-way stage."

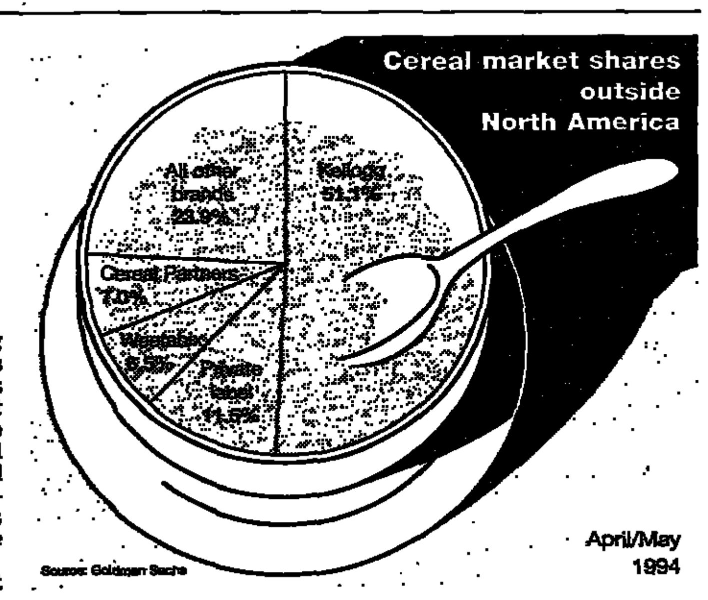
Kleinwort Benson has adopted such an approach. It, too, reported a sharp fall in trading income in the second quarter of 1994 but its overall profitability rose, thanks to a sharp increase in fee and commission income.

Few of Warburg's competitors yesterday took the opportunity to question the company's strategy of integration. "The strategy has to be right for where they are now," says an executive at a rival merchant bank. "If you take bigger and more aggressive positions, then this sort of thing inevitably happens. The test is to see how much money they can make when things go well."

Warburg's timing has not been the best. It began to make markets more aggressively and take positions just as the bond and equity markets turned. It could recoup its losses. "Perhaps the investing public is going to have to get used to these firms having more volatility in their results than before," Mr Cross says.

**Norma Cohen and Nicholas Denton**

# Europe reaches for its cereal




The French are abandoning their croissants, Belgians their rolls and Italians their habit of nothing but espresso. Across Europe, people are swapping their traditional breakfasts for a bowl of processed grain and cold milk. The European market for breakfast cereals has grown in recent years to be worth some $1.5bn annually.

Even during recession, most countries have increased consumption. For example, sales in France, the second largest European market for cereal after the UK, increased by 21 per cent in the year to May 1993.

Europe has become an increasingly competitive market for cereal manufacturers. The recent acquisition of two cereal companies by the Dutch food and drinks company BolsWessanen, giving it almost 10 per cent of the European cereal market overnight, has brought into the open what industry insiders have known for some time.

To compete seriously, companies must have the market share and financial muscle to back new products with heavy advertising. This year, Kellogg is estimated to be spending £6m ($9m) in the UK alone to support its Corn Pops brand.

Harrison & Crosfield, the UK conglomerate which sold, the companies to BolsWessanen, admitted it would not compete in this league by shedding what had been for it a successful, but peripheral, business.

The European breakfast cereals market is controlled by a few large companies. According to the Food Industry Bulletin, Kellogg dominates with more than 50 per cent, followed by Weetabix at 9.5 per cent and Cereal Partners Worldwide, a joint venture between Nestlé and General Mills, with 6 per cent.

The arrival of CP in 1989 is widely credited with setting off the real explosion in the market. Within three years, through aggressive marketing and new product launches, it had won sales of some $348m.

Naturally, Kellogg fought back. When CP launched its Golden Grahams, Kellogg came back a few weeks later with its own Golden Crackers. When CP introduced Clusters, Kellogg responded with Nutfeast.

The battle even threatened a veteran campaigner, Tony the Tiger, of Frosties fame. CP lit upon Huey, Dewey and Louie, Donald Duck's nephews, as the cartoon warriors, for its Trio cereal in France.

But the biggest beneficiaries of the battle between the cereal giants appear to have been the manufacturers of own label products. Own labels claim 11.5 per cent of total European cereal sales, second only to Kellogg. The European market for private label products is widely acknowledged to be growing at a faster rate than the branded sector.

It is partly due to the increasing number of adults who are turning to cereal as a healthier breakfast option. In the UK, for example, the own label market is largely an adult market, focusing on mueslis and bran products.

"Staples deliver more steady virtues," says Mr Mike Batten, marketing manager of the UK private label manufacturer, Telford Foods. "They may have shown a dip in market share at times, but have stable volumes." And with the prospect of an ageing population, "staples and bran are good bets for the future".

In the UK, own label sales are estimated to be outperforming the overall breakfast cereal market's growth of 2 per cent a year.

"Private labels need size to compete," says Ms Nomi Ghez, an analyst with Goldman Sachs in the US. "Who wants to fight for a share of a market which only has sales of about $40m?"

But BolsWessanen, , now with 50 per cent of the European private label market and the financial muscle to back this up, could could force Tony the Tiger, and his rivals, Huey, Dewey and Louie, to sing even louder for their breakfasts.

**Peggy Hollinger**

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## INTERNATIONAL COMPANIES AND FINANCE

# Deutsche Bank to tighten link with Morgan Grenfell

By John Gapper in Madrid

Deutsche Bank is to attempt to strengthen co-operation with its merchant banking subsidiary Morgan Grenfell in a move that could eventually lead to the integration of their investment banking operations.

Deutsche is likely later this month to announce changes in its relationship with Morgan, which it acquired five years ago. It will also try to combine and bolster its equity broking activities in Europe.

Mr Hilmar Kopper, chairman of Deutsche's managing board, said yesterday that its attempts to build up its equity operations would not require a formal change in its co-operation agreement with Morgan.

He said there would be "no dramatic changes to what we are doing in London" and that Deutsche was "particulary happy" with its working arrangements with Morgan. "No fantastic announcements will be made", he said.

However, a working group of four members of Deutsche's managing board, including Mr John Craven, Morgan's chairman, believes that the merchant bank's corporate finances should work more closely with Deutsche's bankers.

The review of investment banking carried out by the group is likely to lead to a statement that Deutsche is strengthening its equity distribution in London and wants closer links with Morgan's advisory activities.

Deutsche's board is likely to say that Morgan's merchant banking and advisory operations could eventually be brought together with its own under a single management, but Deutsche directors expect that this could take about five years.

Five of Morgan's eight activities – asset management, Channel Islands Trust operations, emerging markets debt and equity trading, development capital, and treasury, will be unaffected by the initial changes.

Its equity distribution and project finance activities in Asia are likely to be integrated more closely with Deutsche's primary equities activity in the region, although stopping short of a full merger.

In addition, corporate advisory and equity underwriting in Europe, as well as project and export finance advice - which together employ 300 of Morgan's 2,800 staff - will be linked more closely with Deutsche.

# Kopper urges broad provisions

Mr Hilmar Kopper, chairman of Deutsche Bank's managing board, yesterday backed the suggestion that banks should smooth out peaks and troughs in their earnings by making precautionary provisions against corporate loans, writes John Gapper.

He was speaking at a briefing in Madrid to coincide with the annual meetings of the IMF/World Bank. He said Deutsche was "quite ready to participate in a discussion" on the broader use of general provisions, an idea raised by Mr Brian Quinn, the Bank of England's executive director for financial stability.

Mr Kopper argued that Deutsche's loan provisioning policy was already closer to Mr Quinn's suggestion than other financial institutions, and that there was "wider scope" for the use of general provisions from other banks.

"A lot of analysts in the market do not understand what a bank like our's does when it talks about far-reaching provisions," said Mr Kopper.

Mr Quinn suggested in a speech last week that banks could counter swings in earnings over economic cycles by making general provisions against corporate loans when they are made rather than waiting for defaults.

The idea would face some accounting difficulties because auditors might argue that a bank was artificially undervaluing its assets, although banks currently use the approach for consumer loan portfolios.

Mr Kopper disclosed that Deutsche had decided to use its own name for its Italian subsidiary Banca d'America e d'Italia.

# Intrasoft plans Dr8.54bn float

By Kerin Hope in Athens

Intrasoft, the fast-growing software arm of Intracom, the Greek telecoms equipment manufacturer, is to raise Dr8.54bn ($35m) through a flotation on the Athens stock exchange.

The company plans to increase its capital base by 25 per cent, the minimum required for a listing on the Greek bourse.

It will issue 1.09m new common shares and 732,000 non-voting shares, of which 292,000 are set aside for a private placement. The common shares are priced at Dr4,800 each and the non-voting shares at Dr4,500.

The offering is being underwritten by a group of 13 Greek and foreign banks, led by National Bank of Greece and Barings of the UK. Alpha Finance, the merchant banking arm of Alpha Credit Bank, is financial adviser for the issue.

Intrasoft, Greece's largest producer of integrated software systems, said it would invest 30 per cent of funds raised in new premises and updating its hardware and software systems. The remainder would be spent on developing products new to Greece, such as electronic mailing and data interchange systems, and expanding activities in Balkan markets.

Intrasoft's first-half pre-tax profits were Dr1.1bn, a 95 per cent increase over 1993. Turnover rose 50 per cent to Dr5.1bn.

# Finland's Unitas struggles to trim deficit

By Christopher Brown-Humes in Stockholm

**The depth of the 1992 crisis in the Finnish banking sector was highlighted yesterday when Unitas, the country's second largest banking group, announced heavier write-offs and another big loss for the first eight months of the year.**

**The bank said its credit losses, at FM1.82bn ($374m), were FM137m higher than in the same 1993 period.**

**It relied on lower interest rates, higher capital gains on equities and the acquisition of part of the Savings Bank of Finland to achieve a 14 per cent reduction in overall pre-tax losses, to FM870m from FM1.01bn.**

**Banks in Finland, Sweden and Norway were overwhelmed by losses in 1992 after their economies fell into recession and real estate markets crashed. However, while banks in Norway and Sweden have returned to profit, Finland's leading banks warn they may not show black figures until 1996.**

**Finland's domestic economy is still struggling to emerge from a three-year recession, in spite of a boom in the export sector.**

**Mr Markku Pohjola, Unitas executive vice-president, said: "In Sweden, the banking crisis was mainly related to the real estate market. In Finland, it has more to do with small and medium-sized companies which have gone bankrupt. The Finnish process has developed more gradually."**

**A large part of Unitas' credit losses in the first eight months was caused by the collapse of two groups – Haka, a construction concern, and Eka, a retail and wholesale company.**

**Mr Pohjola said Unitas expected lower credit losses in the final four months, and an overall pre-tax loss that was roughly half last year's FM2.57bn. Next year the bank expects to break even before returning to the black in 1996.**

**Non-performing loans totalled FM6.18bn at the end of August, down from FM6.84bn at the end of last year.**

# Unravelling the Banesto tangle

## Chairman Alfredo Sáenz talks to Tom Burns about the Conde legacy

The modern building on Madrid's central Castellana boulevard where Mr Alfredo Sáenz has his office is an ironic example of the problems that he, Spain's best-known banking troubleshooter, has inherited from Mr Mario Conde, his predecessor at Banesto.

In 1990 Mr Conde, seeking to build up Banesto's balance sheet, sold a real estate group which owned the bank's Castellana offices to a business associate at a greatly inflated price. As the associate, who owned the leisure group Oasis, did not have the cash for the acquisition, Mr Conde had Banesto lend it to him. Oasis could not meet the interests on the loan, so Mr Conde arranged to have Banesto lease the building over 12 years, paying in rent the equivalent of the loan's principle and interest.

"What do you make of a deal like that?" asks Mr Sáenz in his first interview as chairman of Banesto. He is now in the middle of what he calls a "divorce" from Oasis (Mr Conde had Banesto's Industrial Corporation buy 50 per cent of the leisure group). Banesto is suing Oasis over a business arrangement that Mr Sáenz, choosing his words carefully, says was not "fair".

Mr Sáenz arrived at Banesto as caretaker chairman on December 28, hours after the Bank of Spain, alleging gross mismanagement of the the banking group, had removed Mr Conde and his fellow board members. Four months later, Banesto was acquired for Pta281bn ($2.2bn) by Banco Santander.

Mr Sáenz has a variety of messes to sort out, and some will undoubtably end up with the public prosecutors who are examining Mr Conde's business dealings during his six-year reign as chairman. But he is also quietly confident that he will rebuild Banesto's 2,500 domestic branch unit into a leading Spanish retail bank.

The bank was on course to lose some Pta55bn this year. However, the haemorrhage was already stemmed in the first half – losses stood at Pta21.8bn at the end of June – and the shortfall could be down to some Pta12bn by December. Between January and June, Banesto lost Pta495bn worth of deposits, 12 per cent of the total, but in the third quarter it recovered Pta230bn.

The recovery is being fuelled by a rescue plan involving a Pta180bn capital injection, the purchase of Pta285bn worth of non-performing assets by the Deposit Guarantee Fund, and a zero-interest loan of Pta315bn to offset current losses. Banesto's chairman is managing by far the largest lifeboat operation mounted for a Spanish bank.

Alfredo Sáenz: 'If we foul up, Santander will kick us out at the next AGM'

Mr Sáenz is also immersed in ridding Banesto of its industrial assets. Recent disposals – involving the battery producer Tudor, the mining company Asturiana de Zinc and the Rioja winery Bodegas Age – has raised some Pta45bn. Banesto's shareholdings in two television stations and in a newspaper group, which were bought by Mr Conde as a platform for his possible entry into politics and have proved costly investments, are also up for sale.

With the worst behind him, Mr Sáenz is talking about expansion. "Next year we will begin to open 100 new offices, and they will in good urban locations: in Madrid, in Catalonia and in the Basque Country."

"When I got here I didn't know where the bathrooms were, let alone the documents, and the first weeks were horrible," he recalls. He turned himself into an auditor - "one of the enlightened sort" – and into a consultant. "In a question of weeks, I had to discover what the possibilities of a recovery were and where the bank should go if it did recover."

Mr Sáenz, who had been "lent" by his employers, Banco Bilbao Vizcaya, where he was first vice-president, to sort out the Banesto mess, readily accepted Santander's offer to stay on as chairman. "The Bank of Spain kept dropping me hints that I was part of the Banesto acquisition package."

What Mr Emilio Botín, chairman of Santander, acquired when he bought Banesto was a plain-talking Basque-born professional. Mr Sáenz, 52, who worked in the steel industry before joining Banco Vizcaya (later merged with Banco Bilbao to form BBV) in 1981, made his reputation by turning around Banca Catalana, a bankrupt Barcelona-based institution acquired by Vizcaya from the Guarantee Fund.

Mr Sáenz is delighted with the financial muscle that Banco Santander provides, and with the "total management freedom" that Mr Botín has given Banesto's new team, all of whom followed the new chairman from BBV.

"If we foul up, Santander will kick us out at the next AGM," he says. "Those are rules of the game that we understand and we are happy to live with them."

Inherent to the "rules" are that Banesto will be competing directly with Santander – it will open a branch next door to one of its parent's if it believes there are sound business reasons for doing so. Mr Sáenz is keen to segment the Banesto business between its strong rural network, the bank's traditional cash cow, and the urban branches he plans to develop.

"I know Emilio Botín very well and I know that real competition, gripping a knife in your teeth, is exactly what he expects. It would be a mistake, in any case, to act differently; at Catalana we competed ferociously with BBV."

Santander owns 67.9 per cent of Banesto but, as part of its acquisition arrangement, will this week be disposing of 13.7 per cent of its equity to existing shareholders. It will offer one new share for every two held at par value of Pta400.

"I would be very surprised if the shareholders don't wholly subscribe the offer," says Mr Sáenz. If the offering is successful, it will not be just because of the give-away pricing. Battered by the Conde experience, the shareholders will, like the shrewd Mr Botín, be putting their faith in a very different chairman.

# Fibres business drives growth at Snia BPD

Snia BPD, the fibres, chemicals and biotechnology subsidiary of Fiat, lifted operating profits by nearly 50 per cent and more than doubled pre-tax profits in the first half of 1994, writes Andrew Hill in Milan.

The group, quoted on the Milan stock exchange, increased pre-tax profits to L26.8bn ($17.2m) in the first six months of the year, from L12.1bn in the year-ago period. Operating profits rose to L54.6bn on turnover of L1,337bn, up 16.7 per cent on turnover for the first six months of 1993.

The group attributed the strong performance mainly to improvement in the fibres division, headed by its quoted subsidiary Snia Fibre. It returned to an operating profit of L10.3bn in the first half, compared with a loss of L11.7bn a year earlier.

Snia BPD said it expected its full-year pre-tax result to show "a significant improvement" on 1993, thanks partly to a continued reduction in financial charges.

By contrast, Cogefar-Impresit, the Fiat construction subsidiary, is still suffering from the downturn in the Italian public works sector. It announced a consolidated loss of L36bn for the first half.


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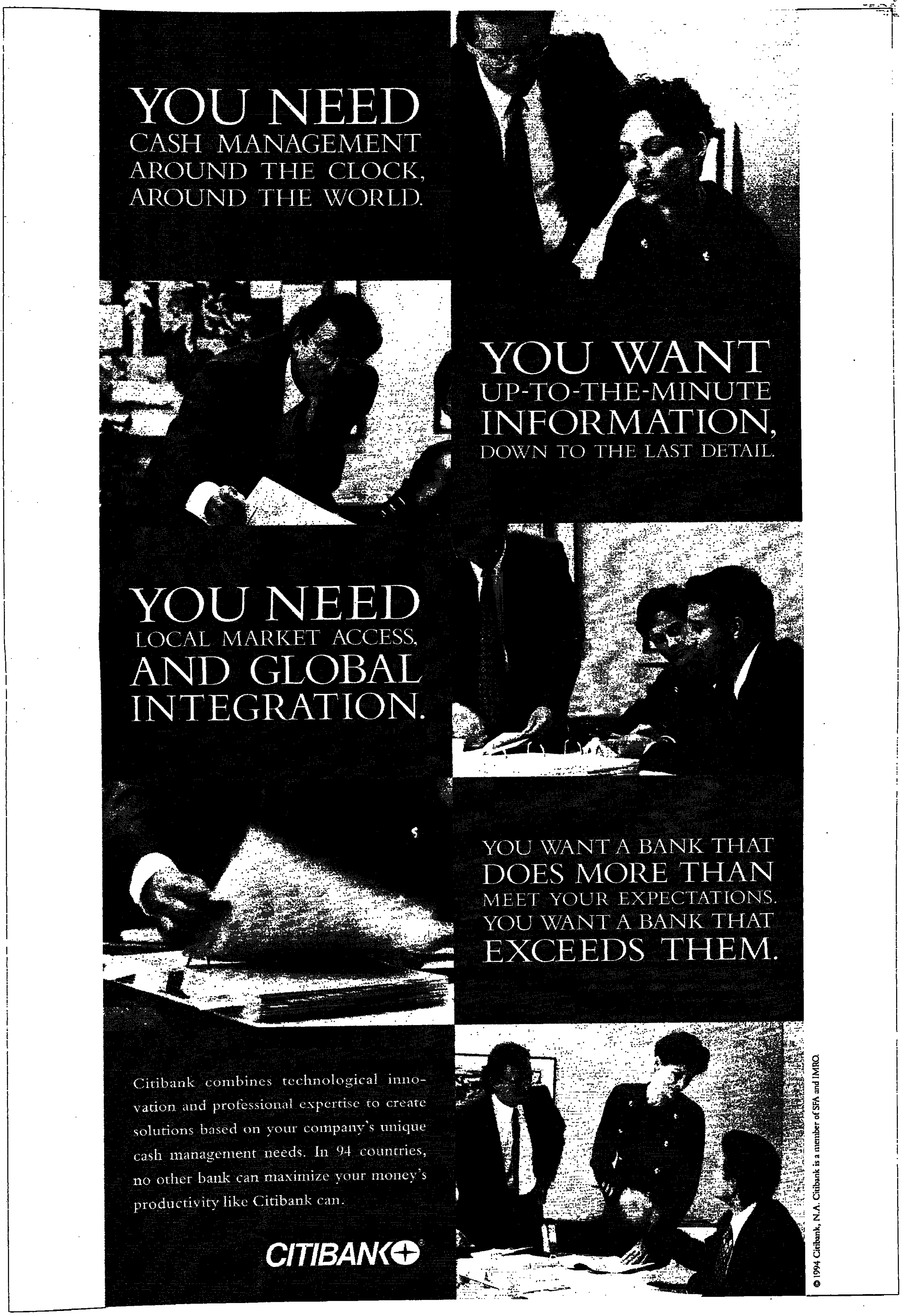
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# Record third-term sales for AMD

By Louise Kehoe in San Francisco

Advanced Micro Devices yesterday reported record third-quarter sales, lifted by strong demand for microprocessor chips which are used in personal computers.

The Silicon Valley chip maker also announced a contract to provide microprocessors to Digital Equipment, one of the fastest growing PC manufacturers.

The Digital deal represents a breakthrough for AMD, which is battling with Intel, the market leader, for a bigger share of PC microprocessor sales.

Intel had been Digital's sole supplier of PC microprocessors, and manufactures a large proportion of Digital's PC products.

Strong sales of microprocessors helped boost AMD's third-quarter revenues to $543m, up 30 per cent from $418m in the same period last year.

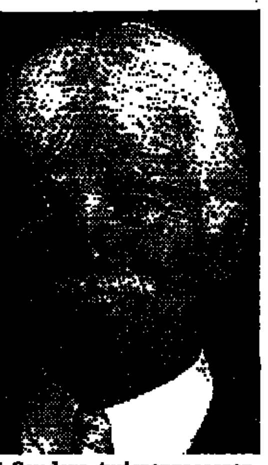
Net income for the quarter ending September 25 was $86.7m before the payment of preferred stock dividends. After the dividends, quarterly net income was 86 cents a share, at the low end of Wall Street projections.

Net income for the comparable period last year was $61.3m before the preferred stock dividend, or 61 cents a share after the payment.

"Microprocessor sales remained at record levels with Am486 microprocessor sales up 7 per cent over the immediate prior quarter," said Mr W.J. Sanders III, AMD chairman and chief executive.

Higher than expected yields from AMD's California submicron production facility boosted production volumes, Mr Sanders added.

AMD also announced new "flash memory" products for notebook computers, personal communicators and other applications.


W.J. Sanders: 'microprocessor sales are at record levels'

During the third quarter the group began production of 16-megabit flash memory chips at its new Japanese production facility, a joint venture with Fujitsu.

"We expect revenue from the Fujitsu-AMD facility in the first quarter of 1995," Mr Sanders said.

With production capacity increasing in both internal facilities and external foundries, "we have prospects for continued overall revenue growth in our fourth quarter, if present market conditions continue", Mr Sanders added.

For the first nine months of 1994, AMD reported total revenues of $1.59bn, up 29 per cent from $1.23bn. Net income was $264.5m before preferred stock dividends and $2.64 a share after dividends.

In the same period last year net income was $187.1m, and per share income after dividends was $1.89.

# Crystal shines light on executive salaries

By William Lewis

**PROFESSOR CRYSTAL'S TOP TEN**

| | Company | Chief executive | 1993 total compensation ($,000) | Recommended salary ($,000) | Difference ($,000) |
|---|---|---|---|---|---|
| 1. | Travelers | Sanford I. Weill | 45,807 | 6,803 | 39,004 |
| 2. | Bear Stearns | Alan C. Greenberg | 16,240 | 3,949 | 12,291 |
| 3. | Citicorp | John S. Reed | 13,100 | 3,772 | 9,328 |
| 4. | Time Warner | Gerald M. Levin | 13,371 | 4,235 | 9,136 |
| 5. | Citizens Utilities | Leonard Tow | 9,460 | 1,978 | 7,482 |
| 6. | Colgate-Palmolive | Reuben Mark | 10,492 | 3,033 | 7,459 |
| 7. | Bankers Trust NY | Charles S. Sanford Jr | 10,460 | 3,116 | 7,344 |
| 8. | Emerson Electric | Charles F. Knight | 9,027 | 2,832 | 6,195 |
| 9. | ITT | Rand V. Araskog | 9,673 | 3,555 | 6,119 |
| 10. | Morgan Stanley Grp | Richard B. Fisher | 10,565 | 4,534 | 6,030 |

Mr Sanford Weill, chairman and chief executive of US financial group Travelers, was overpaid by $39m last year, according to a report by an American executive pay expert.

The analysis, by Professor Graef Crystal, found Mr Weill's pay package totalled $45.8m in 1993 but that he should have been paid $6.8m.

The report concludes that over the past three years Mr Weill has been paid $90.7m more than he should have been in light of the company's performance – measured by returns to shareholders – and its size.

"Weill's performance at the company has been excellent," Prof Crystal says, "but this shows that even excellent performance can be vastly overpaid. As far as we are concerned Mr Weill owes his shareholders $91m, though we doubt that payment will ever be forthcoming."

The next most overpaid executive after Mr Weill is Mr Alan Greenberg, chief executive officer of Bear Stearns, who earned $16.2m last year. Prof Crystal says he should have received less than $4m, a difference of $12.3m.

The survey examined the pay packages of the chief executive officers of 200 of the US's largest public companies and it found some large variations.

The lowest paid chief executive officer was Mr Raymond J. Noorda of Novell, who received $290,000 last year. The report states that because of the company's performance and size he should have been paid $5.7m – a difference of $5.4m.

Other CEO's were underpaid, including Mr Bernard Marcus of Home Depot who has earned a total of $28m less than he should have done over the last three years and $9.5m in 1993 alone.

The average total compensation paid to the 200 chief executive officers in 1993 was about $3.5m. Prof Crystal was able to find only a small relationship between the pay of top US executives and the size and performance of the companies they manage.

However, he found top pay was influenced by geography with "an extremely large pay premium predicated on working in the New York area", says Prof Crystal.

Another important influence was the number of long-term incentive plans the CEO received during 1993.

The analysis found when a company adds a new long-term incentive plan it typically fails to cut back the size of awards under the first long-term incentive plan, or to cut back enough.

"The result is higher and higher total compensation," says Prof Crystal.

The analysis found that total pay for the 154 top executives that were included in last year's survey remained about level, after having risen on average by 21.6 per cent between 1991 and 1992.

Total pay for each executive includes base salary, bonus payments, any long-term incentive plans, and Prof Crystal's valuation of share options granted to each executive during 1993.

Total pay is put against a combination of two figures – company performance over the past 10 years and during each chief executive's tenure, plus company size – to evaluate the amount each CEO should have been paid last year.

# MCI seeks permission to provide local service

By Patrick Harverson in New York

MCI Communications, the second-largest US long-distance telecommunications company which is part-owned by BT, the UK telecoms group, yesterday sought permission from regulators in five states to provide local telephone services in competition with Baby Bell regional phone operators.

The decision by MCI to seek the rights to provide local telephone services in Illinois, Maryland, Michigan, Pennsylvania and Washington comes days after the sale of 20 per cent of the company to BT was completed.

Some of the $4.3bn in cash BT spent on the stake is expected to help finance MCI's drive into local markets – assuming the company receives the go-ahead from state regulators to compete with the Baby Bells in offering telephone services to business and residential customers.

MCI wants to operate telephone services in the five states, not only because it wants access to lucrative local markets, but also because it will be able to avoid the fees it has to pay the Baby Bells to carry MCI long-distance traffic within their markets.

In some cases, these fees cost the company as much as 45 cents of every dollar of revenue.

MCI's move comes against a background of rapid change in the US telecommunications industry. Baby Bell companies are asking the government to lift restrictions which prevent them from operating in the long-distance market, and long-distance carriers such as MCI and AT&T are demanding to be allowed into local markets.

# Safe Partners sold for $120m to UK's OAG

By Christopher Brown-Humes in Stockholm

A British investment company jointly owned by Union Bank of Switzerland and Phildrew Ventures has bought Safe Partners, an accommodation rig specialist, from privately-owned companies in Sweden's Stena group for about $120m.

Offshore Accommodation Group described Safe as "a dynamic, financially-strong, and well-managed group, active in an interesting market with strong potential".

Safe Partners, which has its operational base in Aberdeen, owns five accommodation rigs which are mainly deployed in the North Sea. Last year the group made a pre-tax profit of SKr228m ($30.4m) on turnover of SKr811m.

Celsius, the Swedish defence group, said yesterday it had sold its 40 per cent stake in Safe Partners to a Stena company for $45m.

This gave Stena 100 per cent of the company which it then sold on to OAG.

Celsius said it had sold its Safe stake because it was a minority holding in a non-core area.

It said it would make a SKr180m capital gain on the sale and increased its full-year profits forecast by SKr140m to SKr940m.

# Axa confirms details of Boréal deal

By Andrew Jack in Paris

Axa, one of France's largest insurance groups, yesterday confirmed details of its purchase of Boréal Assurances, the Canadian non-life company, for FFr630m ($119.31m).

Details of the price – which will be paid in cash – were released two months after Axa said it would make the acquisition from Suez, the French financial and industrial holding company.

The purchase is likely to be completed within the next few days, pending regulatory approvals. Axa said Boréal, added to its existing Canadian subsidiary, would make it the fourth largest non-life insurance company in Canada, with annual turnover approaching C$1bn (US$700m). It controls The Equitable of the US.

The group said it had no immediate plans for rationalisation and Boréal would continue to operate under its name alongside Axa Canada.

# Advisers gain in M&A revival

By Richard Waters in New York

When it comes to advising on hostile takeovers, there is no question which side it pays to represent.

For their work on American Home Products' uninvited run at American Cyanamid this summer, Gleacher & Co, a small advisory boutique, will receive $10m. For representing the defending side – which agreed to Home Products' offer after a 14-day skirmish – Morgan Stanley and CS First Boston will be paid $47.6m between them.

The fee levels agreed *in extremis* by besieged company bosses are often challenged later by successful acquirers.

With the US takeover market just completing its most active quarter so far, however, the deal remains a clear sign that the merger and acquisition advisory business remains one of the few bright spots on Wall Street.

To judge from the bald numbers, it appears that fees paid in the present takeover wave are well below the levels of the late 1980s. But anecdotal evidence such as the Cyanamid deal – and the comments of senior takeover advisers – suggests this is still a lucrative business.

According to Securities Data, the average advisory fee in 1988, at the height of the last merger wave, was equivalent to 2.88 per cent of the transaction value: so far this year, it has been 1.25 per cent.

The discrepancy is due largely to the absence of junk bond financing in 1990s takeovers. The underwriting fees associated with raising the debt to pay for acquisitions accounted for a large part of the money paid to investment bankers in the 1980s.

Structural changes in the market could also have held down fees.

Mr Felix Rohatyn, head of M&A at Lazard in New York, points to "the constantly increasing level of sophistication in the financial departments of big companies".

These companies can handle more aspects of an acquisition in-house – and when they do need to farm work out, they are more aware of fees, Mr Rohatyn says.

Advisers generally say they are applying the same fee scales they have used for years, and find companies willing to pay.

"The corporate advisory part of [takeovers] is really not much different from the 1980s," says the head of M&A at one of the big US investment banks, who declined to be identified.

During the third quarter of this year, more than $110bn worth of mergers and acquisitions were announced – higher than for any other period, including the previous record of $105bn in the final three months of 1988.

Based on the Securities Data analysis, total fees earned by Wall Street so far this year are nearly $3bn.

The volume of debt and equity securities issued in the US markets, however, fell by more than half compared with a year before, from $296bn to $144bn.

This announcement appears as a matter of record only August 1994.

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*STRENGTHENING OF MARKET LEADER POSITIONS*
*AND REVERSAL OF PRICE TRENDS*
*TECHNOLOGY-DRIVEN INCREASE IN ORDERS FOR COMPOSITE PRODUCTS*

SEDIVER, world leader in electrical insulation, is also represented in the glass headlight and decorative glass block markets.

On June 30, 1994, sales for the first six months of the year stood at 612.2 million francs, compared with 693.5 million in 1993, 30 million francs of which were accounted for by the glassware business which was sold off at the end of 1993. On a like-for-like basis, half-year sales for 1994 are 7.7% down on 1993, but 7.4% up on estimates at the time of the stockmarket listing (FF 570 million).

Consolidated operating income at June 30, 1994 was 41.9 million francs compared with 87.7 million in 1993, which included glassware.

Net half-year income for the SEDIVER group was -5.1 million francs compared with +27.1 million francs on June 30, 1993.

The fall in SEDIVER's half-year results is due mainly to the glass insulator business. In a difficult market environment, the fall in prices and margins due to the impact of shipments of orders taken in 1993 has strongly affected the figures. Other factors such as currency-related phenomena (exchange adjustment for the Brazilian subsidiary, in particular) and some extraordinary expenses which should not be recurrent have affected the first half-year. In the last few months, over and above the savings already made, the economic environment and market conditions in the glass insulators market have improved enabling prices to recover.

This period has also seen confirmation by the market of SEDIVER's strategic decisions to use composite technology. In the United States in particular, this technology has enjoyed a substantial increase in orders (+30%), with the gradual replacement of hollow structures and lightning arresters currently made of porcelain still to come, which represents a considerable additional market opportunity for SEDIVER.

In the glass headlight sector, Holophane has benefited from a clearly targeted approach which has led to an increase in sales (+11%), market share, income and operating margin.

In the glass block sector, a recent addition to SEDIVER's activities, Vetroarredo has posted significant increases in sales and successfully launched a plant in Florence.

For the whole 1994, sales will be approximately as announced at the time of the stockmarket listing (FF 1.2 billion). In the more favourable market context described above, the second half year will see a return to profit which should give SEDIVER a positive though sharply reduced income for the year as a whole.

For addition information, contact:
Grégoire DUBAN, Member of the Board, Tel : 33.1.42.12.03.30

Bank S.G.Warburg Soditic AG

has changed its name to

Bank S.G.Warburg AG

following the acquisition of the remaining 50% interest in the Bank by Mercury Asset Management Group plc.

Bank S.G.Warburg AG
Gartenstrasse 26
8039 Zürich
*Tel. (01) 201 2400*
*Fax. (01) 201 2414*

Banque S.G.Warburg SA
118, rue du Rhône
1211 Genève 3
*Tél. (022) 786 1000*
*Fax. (022) 786 0142*

**The RTZ Corporation PLC**
**NOTICE**
To Holders of Warrants to Bearer

**ORDINARY SHARES OF 10p EACH**
NOTICE IS HEREBY GIVEN THAT an Interim Foreign Income Dividend of 9.00p per Share will be paid on 12 December 1994 in respect of the year ending 31 December 1994.
Payment of this dividend will be made after presentation of Coupon No. 71 at any of the undermentioned offices of payment.

**3.5% "B" CUMULATIVE PREFERENCE SHARES OF £1 EACH**
NOTICE IS HEREBY GIVEN THAT a Dividend of 1.75p per Share will be paid on 3 January 1995 in respect of the half-year ending 31 December 1994.
Payment of this dividend will be made after presentation of Coupon No. 65 at any of the undermentioned offices of payment.

**OFFICES OF PAYMENT**

The RTZ Corporation PLC
(Registered Office)
6 St. James's Square
London SW1Y 4LD

Generale de Banque
3 Montagne du Parc
1000 Brussels, Belgium

Banque Internationale à Luxembourg S.A.
2 Boulevard Royal
Luxembourg

Union Bank of Switzerland
Bahnhofstrasse 45
CH 8021 Zurich, Switzerland

Credit Suisse
Securities Operations, Dept XWV7
Postfach 690, 8021 Zurich, Switzerland

The RTZ Corporation PLC
(Transfer Office)
Central Registration Limited
1 Redcliff Street, Bristol BS1 6NT

Banque Bruxelles Lambert S.A.
24 Avenue Marnix
1000 Brussels, Belgium

Banque Generale du Luxembourg S.A.
14 Rue Aldringen
Luxembourg

Swiss Bank Corporation
WS-Central Functions
Max Hoegger Strasse 80
8010 Zurich, Switzerland

**Ordinary Shares of 10p each**
The dividend will be paid as a foreign income dividend (FID). For shareholders resident in the UK a FID is treated as having been received net of lower rate tax (20%). The deemed tax credit is not repayable to UK residents and non UK residents will not be entitled to any tax credit refunds under the terms of applicable double tax treaties. The company has increased the cash dividend by the tax credit to compensate for this.

**3.5% "B" Cumulative Preference Shares of £1 each**
The dividend will be paid as a conventional dividend. For shareholders resident in the UK the dividend will carry a tax credit at the lower rate of tax (20% of the dividend plus the tax credit). Where provided for under the terms of an applicable double tax treaty non UK residents may obtain a refund of the tax credit less applicable withholding tax.

Coupons, which must be listed on special forms, obtainable on or after Monday 7 November 1994 at any of the above offices, may be deposited on or after Monday 14 November 1994. Coupons presented for payment in the United Kingdom must be left FIVE CLEAR DAYS for examination.

Shareholders should note that under the Company's Articles of Association provision is made for the forfeiture of the above dividends if not claimed within 12 years from the date of declaration.

6 St. James's Square,
London SW1Y 4LD
4 October 1994

BY ORDER OF THE BOARD
J S BRADLEY
Secretary

INTERNATIONAL COMPANIES AND FINANCE

# Momentum gathers for CGS as Genesis reaps rewards

**The troubled computer services group has forged a multinational structure in order to survive, reports John Ridding**

Cap Gemini Sogeti, the French-based contender in the international computer services industry, has taken a beating during the past few years.

Losses of FFr430m ($81.2m) last year raised questions about its ability to respond to the increased competition and recession in the sector, and the efficacy of its ambitious restructuring programme – grandly dubbed Genesis.

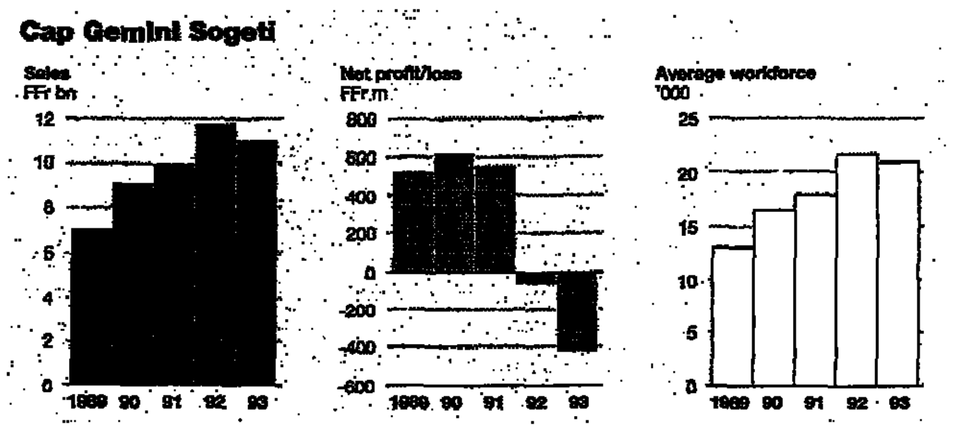
The message from the company's smart Parisian headquarters, however, is that the worst is over. Two years after the birth of Genesis, CGS believes its aim of forging a coherent multinational structure from a disparate range of operations is entering its final stages and the benefits are emerging where they matter – on the bottom line.

"The momentum is gathering," says Mr Geoff Unwin, chief operating officer. After announcing a slight narrowing in first-half losses late last month, to FFr115m from FFr197m, he predicts a return to profit in 1995. But, as Mr Unwin concedes,there is still much to be done.

The end of recession in many markets, apart from southern Europe, has helped revive demand and taken a little of the sting from price competition which followed the expansion into the sector of industry hardware producers, such as International Business Machines. "The hardware producers came in with crazy prices," says Mr Unwin. "We are now seeing signs of sanity on the pricing front."

With the introduction of new service offerings, such as information systems management, the improved economic environment enabled the company to reverse the trend of declining revenues in the second quarter. Sales have continued to rise in the second half, while order books at the end of June were up by about 12 per cent compared with the corresponding period last year.

More significant, claims the company, are the tangible benefits of the Genesis programme. The restructuring was launched in 1992 with the aim of welding a series of acquisitions, such as Hoskyns of the UK and Programator of Sweden.




It has involved the division of the company into geographical and sectoral centres with the aim of re-using products and services across its markets. France, for example, has become the centre for telecommunications services, while the US is the base for energy and oil-related systems.

The process has been expensive and difficult. Mr Unwin estimates that FFr600m has been invested in the programme, about one-quarter of the expenses relating to payments to the company's Gemini consulting arm, the architect of the restructuring plan. The balance has gone largely to training and communications charges.

The result of the upheaval, says CGS, is that the company can now offer clients a broader range of services, more quickly.

"In the first half, we derived about 10 per cent of revenues from transferring expertise and know-how from one country to another," says Mr Unwin.

He cites as an example the award of a telecoms contract in Hungary, won by a Danish team using technology from the company's French operation.

For Mr Unwin, the company had little choice in its decision to launch the ambitious programme. Medium-sized, country-based computer services groups will find it hard to survive, he argues, in an industry where delivery times and the ability to re-use programmes have become the main priority. "Hoskyns [Mr Unwin's previous company] was doing well, but we would be beaten out of contracts from big companies which could import know-how."

Unlike Hoskyns, CGS has enjoyed the protection of a solid shareholder base during the upheaval. Mr Serge Kampf, founder of the group, and Daimler-Benz of Germany, which holds 34 per cent of CGS, have provided a valuable umbrella. "We could not have undergone such change without them. We might have been gobbled up," says Mr Unwin.

The future of the company's shareholding structure is, however, a source of uncertainty. Daimler-Benz has an option to take control of CGS from February next year through the exercise of its convertible bond holdings.

The German group has expressed an interest in a stronger management role in CGS, but most industry observers believe it is more concerned to find an additional partner to strengthen its French associate's operations.

Such a partner could come from the telecoms sector. "Large telecoms operators are looking increasingly at what happens at the end of their networks, for both business clients and consumers," says Mr Unwin. "They all have, or are seeking, a presence in this industry."

France Télécom, the state-owned operator, is one potential candidate. But talks have yet to yield results. Like other possible partners and Cap Gemini's existing smaller shareholders, it is likely to need more convincing of the rewards of life after Genesis.

## Hungary privatises porcelain producer

**By Virginia Marsh in Budapest**

Hungary is to privatise Zsolnay Porcelangyar, its largest manufacturer of high-quality porcelain.

The state would sell an 84 per cent stake in the company through a one-round tender which would close on November 28, according to AV RT, the state holding company.

Because Zsolnay is one of Hungary's oldest and best-known companies, the state plans to keep a golden share with some veto rights, according to Japan's Daiwa MKB which is advising AV RT.

The 84 per cent stake has a nominal value of Ft463.8m ($4.29m) which under Hungarian privatisation regulations is the minimum price acceptable.

AV RT said it aimed to find a partner which would keep the Zsolnay name and maintain employment at its factory in Pecs, southern Hungary. Zsolnay, which employs 1,100, had turnover of Ft950m in 1993 and is forecasting Ft1bn this year.

Hand-painted porcelain, which the company has been producing for 150 years, accounts for about 30 per cent of output. It also manufactures mass-produced household crockery and porcelain high-voltage insulators, in which it has a local market share of 80 per cent.

The company has launched a marketing drive to lift exports to 40 per cent of production, from the present level of between 20 per cent and 25 per cent.

## Asarco takes $30.7m charge

**By Laurie Morse in Chicago**

Asarco, one of the largest integrated copper producers in the US, is taking a $30.7m after-tax charge to third-quarter earnings to pay for environmental clean-ups.

The charge, equal to $45.5m on a pre-tax basis, largely results from a settlement between Asarco and the City of Tacoma, Washington, and surrounding communities over the clean-up of a smelter site.

## Mexico tightens rules for financial sector after alleged fraud

**By Damian Fraser in Mexico City**

Mexico is drawing up tighter regulations for the financial sector following reports of alleged fraud at the Union and Cremi banks, and at the Havre financial group.

Mr Guillermo Ortiz, deputy finance minister, said that the new regulations would require external auditors and the National Banking Commission to investigate activities of financial institutions in more detail.

They would also make it easier for private agents to evaluate the quality of a bank's assets by requiring financial groups to disclose more information.

The regulations are likely to be drawn up in time to be considered by the incoming government of Mr Ernesto Zedillo, which takes office on December 1.

The new rules are aimed at bringing regulations in line with practices in the industrialised world.

They are also intended to avoid a repetition of events at Havre – where company executives allegedly set up fake companies that received government-subsidied loans – and at Cremi and Union, where the chief executive is said to have illegally lent up to $700m to companies he controls.

According to Mr Ortiz, the National Banking Commission mainly analyses the accounts of financial institutions without looking too closely at the financial risks that institution is exposed to.

In future, the commission will examine more closely financial risks inherent in a bank's lending or trading practices.

Mr Ortiz said that "the financial authority is considering the emission of norms that will oblige banks to measure interest rate, exchange rate and inflation risk they are exposed to, and comply as a result with the necessary levels of capital."

The role of the external auditor is also expected to change. According to Mr Ortiz, the external auditor may have to analyse in depth a sample of credits, to verify information given by the banks.

Mr Ortiz urged that the auditor "stop making just simple revisions of accounts and help make clear to the investor the relevant information of each institution".

Directors will be encouraged to check more thoroughly that their institution is complying with the law, and is assessing risks appropriately.

The government believes financial markets should become more important in the evaluation of banks and their assets.

This should be helped by future regulations that will require similar information disclosure in Mexico to that demanded by the US under GAAP accounting rules.

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**Hon Kwok Land Treasury Limited**
(incorporated with limited liability in the Cayman Islands)

U.S. $50,000,000

4.875 per cent. Convertible Guaranteed Bonds due 2000
(the "Bonds")

convertible into shares of, and guaranteed by,

**Hon Kwok Land Investment Company, Limited**
(incorporated with limited liability in Hong Kong)

**Adjustment of Conversion Price of Bonds**

On 11th August, 1994, the Directors of Hon Kwok Land Investment Company, Limited ("Hon Kwok") announced a proposed bonus issue of shares of HK$0.50 each of Hon Kwok on the basis of one share of Hon Kwok for every ten shares of Hon Kwok held on 22nd September, 1994 (the "bonus issue").

In accordance with the terms and conditions of the Bonds (the "Conditions") and the provisions of the Trust Deed dated 15th December, 1993 consituting the Bonds entered into between Hon Kwok, Hon Kwok Land Treasury Limited and The Law Debenture Trust Corporation p.l.c., the Conversion Price after appropriate rounding (as defined in the Conditions) in relation to the Bonds will be adjusted as a result of the bonus issue.

The adjustment will be made by multiplying the Conversion Price in force immediately before the bonus issue by the aggregate nominal value of the issued shares of Hon Kwok immediately before the bonus issue and dividing the result by the aggregate nominal value of the issued shares of Hon Kwok immediately after the bonus issue, as set out below:

$$\text{HK\$4.25} \times \frac{\text{HK\$340,211,784}}{\text{HK\$374,232,962}} = \text{HK\$3.80}$$

The resolution approving the bonus issue was passed on 22nd September, 1994, the adjusted conversion price of the Bonds will be HK$3.80, with effect from 23rd September, 1994.

By Order of the Board
Hon Kwok Land Treasury Limited
Raymond Wing-Choi Cheung
*Authorised Representative*

Hon Kwok Land Investment Company, Limited
Harman Man-Hei Fung
*Managing Director*

Bankers Trust Company, London
4th October, 1994

*August 12, 1994* — *This announcement appears as a matter of record only*

**THE REPUBLIC OF KOREA**
**acting through its Ministry of Finance**

**Tied Commercial Loan in an amount of USD 720 million**

for the purchase, by the Korea High Speed Rail Construction Authority, of the Korea High Speed Rail Core System supplied by the Korea TGV Consortium

*Arranger*
**Banque Indosuez**

*Co-Arrangers*
Banque Nationale de Paris — The Korea Development Bank — Société Générale

*Supporting Banks*
Morgan Guaranty Trust Company of New York — Wardley Capital Limited

*Funds provided by*

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| Crédit Commercial de France | The Dai-Ichi Kangyo Bank, Ltd | Deutsche Bank (Asia Pacific) Limited |
| Electro Banque | The Fuji Bank, Limited | Generale Bank |
| Hanil Bank (Deutschland) GmbH | Hanil Finance Australia, Ltd | Hanil International Finance, Ltd |
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| Korea First Finance Ltd | The Long-Term Credit Bank of Japan, Ltd | Morgan Guaranty Trust Company of New York |
| Seoul (Asia) Finance Limited | | Société Générale |

*Agent Bank*
BANQUE INDOSUEZ

*August 12, 1994* — *This announcement appears as a matter of record only*

**THE REPUBLIC OF KOREA**
**acting through its Ministry of Finance**

**French Buyer Export Credit in an amount of approximately USD 1,700 million**

for the purchase, by the Korea High Speed Rail Construction Authority, of the Korea High Speed Rail Core System supplied by the Korea TGV Consortium

*Lead Manager*
**Banque Indosuez**

*Co-Lead Managers*
Banque Nationale de Paris — Société Générale

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| Générale de Banque Belge (France) SA | The Industrial Bank of Japan, Limited | JP Morgan & Cie S.A. |
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**C.A. La Electricidad de Caracas, SAICA-SACA**

U.S. $209,554,000
Floating Rate Bonds due 2003
Series A-1

U.S. $13,628,000
Floating Rate Bonds due 1997
Series A-2

U.S. $23,247,000
Floating Rate Bonds due 1998
Series B-1

U.S. $19,242,000
Floating Rate Bonds due 1995
Series B-3

In accordance with the provisions of the Bonds, notice is hereby given that for the Interest Period from September 30, 1994 to December 30, 1994 the Bonds will carry an Interest Rate of 6.1875% per annum. Interest calculated on each U.S. $1,000 nominal amount is U.S. $15.64. Interest payable on December 30, 1994 adjusted in respect of the appropriate amounts remaining outstanding for each series is as follows:

Series A-1 will amount to U.S. $14.601336 per U.S. $1,000 nominal amount of which U.S. $932.98 remains outstanding.
Series A-2 will amount to U.S. $7.8103744 per U.S. $1,000 nominal amount of which U.S. $499.96 remains outstanding.
Series B-1 will amount to U.S. $6.5638144 per U.S. $1,000 nominal amount of which U.S. $420.96 remains outstanding.
Series B-3 will amount to U.S. $3.91 per U.S. $1,000 nominal amount of which U.S. $250.00 remains outstanding.

By: The Chase Manhattan Bank, N.A.
Agent Bank
October 3, 1994 CHASE

**C.A. La Electricidad de Caracas, SAICA-SACA**

U.S. $39,836,000
Collateralized Floating Rate Bonds due 2005

In accordance with the provisions of the Bonds, notice is hereby given that for the Interest Period from September 30, 1994 to December 30, 1994 the Bonds will carry an Interest Rate of 5.3125% per annum. The interest payable on the relevant interest payment date, December 30, 1994 will be U.S. $13.43 per U.S. $1,000 principal amount.

By: The Chase Manhattan Bank, N.A.
Agent Bank
October 3, 1994 CHASE

**U.S. $105,000,000**
**Guangzhou Investment Convertible Bond (1993) Limited**
(incorporated with limited liability under the laws of the Cayman Islands)
4.5% Convertible Guaranteed Bonds Due 1998
convertible into shares in and guaranteed by
Guangzhou Investment Company Limited
(incorporated with limited liability under the laws of Hong Kong)

In accordance with Clause 7(D) of the Trust Deed dated 8th October, 1993, Notice is hereby given that in order to establish the 1994 interim dividend rights to the shares of Guangzhou Investment Company Limited (the "Company"), the register of the Company will be closed on 17th of October, 1994 to 28th of October, 1994, both days inclusive. In connection therewith, the attention of the bondholders is directed to the provisions of Clause 6(N) of the Trust Deed dated 8th October, 1993.

THE BANK OF NEW YORK
The Bank of New York
*(The Principal Paying Agent)*
On behalf of the Company
October 4, 1994

**Anic Partecipazioni**

**Invitation to offer to purchase premises in Via Barberini n. 36 Rome (Italy)**

The Company Anic Partecipazioni SpA (company in liquidation - Extraordinary Meeting of 22.6.94 under approvation), with registered office in Palermo, via Ruggero Settimo 55, with share capital of Lit. 50,042,228,000 fully paid up, registered with the Palermo Court, Companies' Registry no. 36325 vol. 287/195, intends to receive and evaluate offers for the purchase of approximately 1000 sq.m. of office space, currently being restructured, in Via Barberini no. 36 - Rome.
For the purpose of this transaction interested parties should contact:

**EniChem SpA**
**Via Medici del Vascello 40/D, Milan, Italy**
***Ufficio Immobili***
**Tel. +39.2.520.39806/30815/89811**
**Fax +39.2.520.39800**

The present announcement is directed both to private individuals and companies. Interested parties can request in writing, also by fax, a copy of the information memorandum, specifically prepared for the sale, from EniChem within 25th October 1994.
Anic Partecipazioni reserves the unquestionable right to send the memorandum only to those interested parties considered to be suitable for admittance to the above invitation to offer.
*All intermediaries must disclose the identity of the company or person they represent.*

**The present announcement represents an invitation to offer but does not represent either a public offer ex art. 1336 of the Italian Civil Code, or a solicitation to public saving ex art. 1/18 of Italian law no. 216/1974, including all successive modifications and integrations thereto. Neither this invitation nor the receipt of any offers will create, with respect to Anic Partecipazioni SpA, any obligation or commitment to sell to any bidder and, with respect to any bidder, any right to demand any performance whatsoever by Anic Partecipazioni SpA, including the payment of any brokerage or advisory fees or expenses.**
**Anic Partecipazioni SpA also reserves the right to terminate any and all discussions without any reason or explanation whatsoever, regardless of their stage or status.**

This advertisement and the sale procedure are subject to Italian law. In case of controversy related to the above, the Court of Milan (Italy) shall have sole jurisdiction.

EniChem

## INTERNATIONAL COMPANIES AND FINANCE

# Nippon Mortgage Corporation files for liquidation

By Gerard Baker in Tokyo

Nippon Mortgage Corporation, a medium-sized non-bank financial institution burdened with substantial non-performing loans, yesterday filed for liquidation.

An extraordinary meeting of shareholders approved the action, first signalled by the company's directors in July.

At March 31, Nippon Mortgage had liabilities of Y518.4bn ($5.24bn) and assets of just Y454.7bn. Principal creditors – which include Sumitomo Trust and Banking Corporation – considered this gap too large to be plugged by fresh injections of capital.

The folding of Nippon Mortgage is the third largest corporate collapse in Japan since the second world war.

The company was established in 1982 by Sumitomo Trust and other companies to specialise in property-related lending.

In 1991, at the height of the "bubble economy", a period of rapid asset price inflation, Nippon Mortgage had a loan book with a paper worth of Y540.5bn. By the start of this year, however, an estimated 97 per cent of its total loans had become non-performing following the bursting of the bubble.

● Fujisawa Pharmaceutical, a leading Japanese drugs manufacturer, has revised upwards its non-consolidated earnings forecast for the first half and the full year to March 1995 due to cost-cutting efforts and a rise in demand for its antibiotics, writes Emiko Terazono.

The company, which initially expected a 3 per cent fall in interim sales to Y113bn and a 23 per cent decline in pre-tax profits to Y9bn, now sees the pre-tax figure rising 3.1 per cent to Y12bn on a 1.3 per cent increase in sales to Y116bn.

The company also attributed the rise in sales to buying by hospitals and physicians who had waited for a cut in national health insurance drug prices last April to purchase their drug supplies.

However, the company said the move by SmithKline Beecham, the Anglo-American pharmaceuticals group to which Fujisawa provided its sales channel, to set up its own distribution company next January would still depress annual sales. The impact of the cut in the NHI official drug prices will also affect earnings.

For the full year, Fujisawa now expects unconsolidated pre-tax earnings to rise 5.3 per cent to Y31bn on a 1.2 per cent fall in sales to Y232bn, and a 40 per cent decline in after-tax profits to Y6bn.

# Hutchison Whampoa to sell exchangeable bonds

By Louise Lucas in Hong Kong

Hutchison Whampoa, the conglomerate controlled by Mr Li Ka-shing, is to sell $250m-worth of mandatorily exchangeable bonds that will convert into shares of Hutchison Delta Ports, the proposed spin-off of the group's river-coastal ports activities.

The initial public offering for Hutchison Delta Ports is planned to take place within seven years of the issue of the bonds.

The bond issue, which will be increased by up to $50m if there is sufficient demand, is expected to close on November 8.

The bonds are due in 2024 and will carry a coupon of 7 per cent.

The proceeds of the issue will be used to finance the activities of Delta Ports, a wholly-owned subsidiary of Hutchison which was formed to own and manage the group's existing and future business in river-coastal ports, and its subsidiaries.

# NRMA flotation hits roadblock

## Demutualisation plan faces a challenge, says Nikki Tait

One might imagine that, in exchange for a "free" handout of shares worth anything from A$500 ($367) to A$2,000, customers would be fairly sanguine about their insurance company's legal structure.

But NRMA, the large Australian personal lines insurer which wants to move to shareholder-owned status via a A$2.2bn-plus stock market flotation before the end of the year, is running into surprising roadblocks as it pursues the demutualisation path.

This week, two dissident directors who are opposed to the flotation scheme will mount a legal challenge, arguing that NRMA's prospectus is misleading and deceptive. Already, complaints from some NRMA members to the Trade Practices Commission, the Australian watchdog, have forced the insurer to publish corrective advertisements over sale details.

More fundamentally, such stirrings raise doubts about the degree of support which the insurer will be able to secure from members when they finally vote on the issue on October 19. If demutualisation is successful, NRMA would become Australia's largest quoted insurance company, but it needs 75 per cent of members voting in favour before it can proceed.

One opinion poll, published over the weekend, suggested that only 56 per cent of a 600 member-sample was supportive, while 21 per cent was opposed. The remaining 23 per cent was undecided.

Stung by these results, NRMA retorted that its own research indicated that more than 80 per cent of members would support the scheme. It also noted that the same unfavourable survey showed an 81 per cent "yes" vote among members who had already returned polling forms.

Nevertheless, while NRMA officials publicly profess a "quiet confidence" about the outcome, a heavy lobbying and publicity campaign speaks volumes for the inherent uncertainty.

This unexpected tussle has two causes. The first derives from the company's history, which means that it is much more than just an insurance operation. Secondly, the rationale behind the flotation has not been particularly well articulated, and members could justifiably claim to be confused.

NRMA was formed as a motoring club in 1920, mainly to lobby for better roads (its acronym derives from its original name, the National Roads & Motorists Association).

Within a few years, it had begun to provide emergency breakdown services. In 1925, it added an insurance arm.

Over the next five decades, the organisation entered the life and home contents insurance markets, but remained focused on its New South Wales base. Geographical expansion only entered its strategy this year, when it moved into Victoria.

Today, NRMA's business splits into two parts. On the one hand, there are the insurance operations, which are still dominated by the motor business. Car policies accounted for 51 per cent of NRMA's A$1.1bn premium income last year, with compulsory third-party policies accounting for 15 per cent. This makes NRMA Australia's largest motor insurer, with more than 1.6m policies in force.

On the other, there is the road service division, which ranges from a 24-hour helpline for car breakdowns to travel information and a hotel booking facility. It is broadly similar to the RAC and Automobile Association in the UK, although Australia's geography makes membership a more essential precaution.

To access these services, a motorist must become an NRMA member and pay a one-off joining fee of A$36 plus an annual subscription of the same amount. There are currently more than 1.8 members, about 70 per cent of whom also hold NRMA insurance policies. These people will determine the company's future.

The prospectus, sent out to members, is remarkably bland about the reasons for the float: it says simply that NRMA wants to demutualise "to enable its financial success to be shared with its members".

Since then, directors and NRMA officials have been more ingenuous, stating that the flotation is vital to future growth. They point out that mutual insurers have a limited ability to raise new capital quickly. A prudent mutual, therefore, will tend to store funds for unexpected needs.

By floating, and having access to the stock market as a capital source, NRMA will be able to use its funds more efficiently. There will be less need to hoard funds, at the same time, it will be able to generate new capital if it wants to expand. Directors acknowledge that more diversity in insured risks would be desirable.

In addition, NRMA has noted that it has "significant" tax credits which it cannot utilise at present. As a listed company, it could use these in payment of franked dividends. Finally, directors have claimed that stock market status would encourage a more "market-driven" focus within the group.

Worry among members centres on this last point, one particular fear being that efforts to pursue efficiencies on the insurance side will undermine services on the motoring side.

At present, NRMA barely breaks even on motor services. According to the rather scant financial information contained in the prospectus, motor services have incurred annual losses ranging between A$6m and A$10m over the past four years. This has been covered by "member services investment income" in the A$11m to A$13m range.

The insurance division has been more rewarding, with underwriting losses consistently outweighed by investment income. Pre-tax profits on this side – before unrealised investment gains or losses – have run out at A$44m, A$192m, and A$125m over the past three years. Results in the first year, moreover, were depressed by catastrophe claims. About A$100m is estimated for the year to end-June 1994 with A$141m forecast for the current year.

But on this score, too, opponents of demutualisation fear that shareholders' demand for profits will mean higher premiums. In particular, they claim that NRMA is planning to discontinue insurance rebates for members.

The company, not surprisingly, has said that these fears are exaggerated. According to Mr Ray Willing, chief executive, NRMA will continue to provide "a world-leading road service and competitive insurance premiums". The organisation claims that alternative means of distributing excess capital to members – through insurance rebates, say, or low membership fees – are either inefficient or less equitable.

As for worries that a listed NRMA could be taken over, it points out that there is a 5 per cent cap on any single shareholding until 2000, and some protections under federal legislation thereafter.

NRMA has even gone so far as to claim that the flotation – with its associated share hand-out – is "one of the greatest acts of corporate generosity" seen in Australia.

Somehow, with two weeks to go to the crucial vote, all members have yet to be convinced.

**NRMA - Profit and loss: historical and forecast, 1990-91 - 1994-95 (A$m)**

| | 1990-91 (a) | 1991-92 (a) | 1992-93 (a) | 1993-94 (e) | 1994-95 (f) |
|---|---|---|---|---|---|
| Underwriting result | (204) | (93) | (116) | (15) | (129) |
| Insurance result before tax | 104 | 372 | 322 | 111 | 243 |
| Financial Services profit/(loss) | 9 | 9 | 9 | 13 | 18 |
| Member Services net income | (10) | (6) | (7) | (12) | (12) |
| Member Services investment income | 12 | 11 | 13 | 14 | 13 |
| Profit before tax | 115 | 386 | 337 | 126 | 262 |

(a) actual (e) estimated actual (f) forecast

Source: company figures


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Spain

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for a consideration of

**US $176,490,000**

The undersigned acted as financial advisor to ENDESA.

**Bank of America, S.A.**

Bank of America NT & SA

**CANON INC.**

Advice has been received from Tokyo that the Board of Directors has declared a payment of DIVIDEND of Yen 6.25 per share for the six months period ended 30th June 1994. Holders of EUROPEAN DEPOSITARY RECEIPTS TO BEARER (SHARE EDR's) wishing to claim the dividend in respect of the shares represented by their EDR's ... [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales. [illegible]

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Hanoi, Viet Nam

**U.S.$29,500,000**

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## INTERNATIONAL CAPITAL MARKETS

# US Treasuries retreat on rate rise fears

By Frank McGurty in New York and Conner Middelmann in London

US Treasury bonds retreated yesterday morning on economic data which reinforced expectations of an imminent increase in short-term interest rates.

By midday, the benchmark 30-year government bond was ⅜ lower at 95⅝, with the yield rising to 7.856 per cent. At the short end, the two-year note was down ⅛ at 99⅞, to yield 6.653 per cent.

Early on, prices improved as the dollar gained ground against other leading currencies. The move reflected partial agreement reached by US and Japanese negotiators at the weekend in negotiations over an array of trade issues.

However, bonds quickly surrendered their gains on the release of the monthly survey conducted by the National Association of Purchasing Management. The results showed continued strength in the manufacturing sector and further pressure on prices.

The NAPM's overall index of business activity climbed to 58.2 per cent in September, from 56.2 per cent the previous month. The price component of the survey reached a six-year high of 77.1 per cent, up from 74.5 per cent.

The inflation-sensitive long end of the maturity range was most unsettled by the news, with the yield on the 30-year issue climbing a little closer to the 8.00 per cent level. But the short end was also down, as the data provided a little more evidence which might support a move by the Federal Reserve to put up short-term rates for the sixth time this year.

Many traders are expecting the Fed to act before the end of the month, as it becomes more apparent that the five policy tightenings so far have failed to slow the economy.

The timing of the central bank's next move could be determined by the strength of this Friday's report on August employment conditions.

■ European government bonds followed US Treasuries lower on the NAPM data, and sentiment was jittery amid continued speculation over a near-term increase in US interest rates.

### GOVERNMENT BONDS

"Fears of imminent Fed tightening are likely to be a depressing factor for European markets all week," said Mr John Shepperd, chief economist at Yamaichi International.

With Germany closed for a national holiday, turnover was relatively thin and price movements were mainly futures-led. Hopes of fresh cash allocations at the start of the fourth quarter were dashed by the renewed market weakness.

■ UK gilts were particularly badly hit, closing nearly a point lower on the day. After briefly breaching technical resistance at 100 and rising to 100¼, the December long gilt futures contract on Liffe fell by ⅞ to 98⅞.

The market began to weaken in the morning on news of a stronger than expected rise in M0 money supply growth, raising fears that inflationary pressures could prompt another increase in base rates. M0 posted a seasonally adjusted year-on-year rise of 7.1 per cent in September, compared with market forecasts of a 6.8 per cent rise.

The news eclipsed data from the Nationwide Building Society showing a 2.9 per cent decline in UK house prices in September from August.

The sharp price decline, especially among longer-dated gilts, caused the UK yield spread over German bonds to widen markedly to 151 basis points from 137 on Friday.

■ Although Germany was closed, the bund future on Liffe fell ½ point to 88.30 in the wake of the US numbers. The October 16 federal elections were also weighing on the market.

While most market participants are betting on a re-election of the governing centre-right coalition, there is widespread talk of a grand coalition including the opposition Social Democrats.

However, the market does not seem to be discounting a change in government. Consequently, "if polls continue to show a close outcome in coming weeks, the risk remains for somewhat higher bond yields near-term", warn analysts at Salomon Brothers.

■ Italian bonds fell nearly a point, depressed by the NAPM numbers and fears that Italy's budget could face a struggle through parliament. The December BTP future on Liffe fell by 0.87 to 98.90.

# US mutual funds back Investcorp acquisition

By Norma Cohen, Investments Correspondent

Investcorp, the international investment bank, said it had completed the acquisition of Ebel SA, a leading Swiss manufacturer of luxury watches, in a deal which uses a financing technique never used before in Europe.

The deal relies on a form of financing, becoming increasingly common in the US market, under which mutual fund companies establish separate funds specifically to invest in senior floating-rate notes and longer-term loan maturities.

In the Ebel deal, Investcorp will acquire a majority stake in Ebel, with the company's management buying remaining shares through a SFr130m multi-currency facility arranged by Bankers Trust.

This consists of a SFr80m three-year revolving credit facility and a term loan in two tranches.

The first tranche is a SFr48m five-year amortising bullet loan with an average life of 3½ years; the second tranche of the loan is for SFr32m, does not begin amortising until the sixth year and funds are provided by mutual funds managed by Merrill Lynch and Van-Kampen Merritt.

Because Ebel, which has extensive US sales, has dollar-based cashflow, the mutual funds can rely on receiving their interest and principal repayments in their home currency.

"We have structured the term loan to tailor the maturity profile to the needs of the investors and the company," said Mr Paul Soldatos, a member of Investcorp's management committee.

# Revival of activity in Latin American eurobond issuance

By Graham Bowley

The Latin American eurobond market saw a revival of activity in the third quarter of this year, following two successive quarters of decline.

It was lifted by greater political and economic stability in the region and a better tone in the US Treasury market.

According to a report by West Merchant Bank, the London subsidiary of Germany's Westdeutsche Landesbank, $3.4bn worth of new offerings were launched during the third quarter of 1994, compared with $2.0bn in the second quarter.

This is still less than the $6.4bn worth of bonds offered in the first three months of the year and the $9.2bn launched in the final three months of 1993. Nevertheless, it is a significant improvement on the second quarter of the year, which saw many borrowers withdraw from the market.

Mr Peter West, economic adviser at West Merchant Bank, said in the report: "The third-quarter upturn suggests that the market is slowly recovering from the negative shock caused earlier in the year by higher US interest rates, the collapse in the secondary debt market, and adverse political and financial developments in countries like Mexico and Venezuela."

However, further progress will depend to a great extent on the state of the US government bond market.

The recovery in the third quarter takes total Latin American offerings for the year to $11.9bn, down 31 per cent on the same period in 1993 but greater than the $10.2bn raised during the whole of 1992.

Brazil and Mexico accounted for a large part of the resurgence in activity. The success of the Real Plan in controlling inflation and the prospect of victory in today's presidential elections for Mr Fernando Henrique Cardoso, the former finance minister and the plan's architect, has boosted investor confidence in Brazil.

Sentiment in Mexico, which has been battered by political unrest, found support in the recent election victory of Mr Ernesto Zedillo. The signing last month of the "pacto", the agreement between business, labour and the government under which prices, wages and exchange rate policies are set, will provide further support.

However, the assassination last week of an important figure in the ruling PRI party is likely to be a significant blow to confidence.

Brazil launched eight offerings in the third quarter with a total value of $537m, compared with only two offerings in the second quarter worth $31m.

"Brazilian issuers have to some extent improved their ability to access international capital markets," said Ms Rebecca Clarke, research manager at West Merchant Bank. "Now the elections are over, we are likely to see more new issuance from Brazil."

Activity was greatest in September, when issuance reached its highest level since February. There was a rush of large offerings from Mexico and Argentina, including two deals from Cemex, Mexico's largest cement producer.

The quarter was also notable for a rise in the number of countries tapping the market. Colombia, Chile and Trinidad and Tobago, all absent in the second quarter, returned to the market, to join Argentina, Brazil, Peru and Mexico.

# Japan Development Bank launches $500m deal

By Graham Bowley and Martin Brice

A small number of eurobond issues was launched into difficult market conditions yesterday, with sharp falls in US and European government bond prices.

### INTERNATIONAL BONDS

Attention today turns to the World Bank's DM2bn global offering of five-year fixed-rate bonds, which will be launched today and priced tomorrow, said joint lead manager Morgan Stanley.

In the US dollar sector, the Japan Development Bank launched $500m of five-year bonds, priced to yield 22 basis points over US Treasuries.

Demand for the offering came from institutional investors in Japan and continental Europe, who were attracted by the relatively wide spread and high coupon, said joint lead manager IBJ. The proceeds were swapped into yen.

One syndicate manager described the pricing and size of the deal as "generally well-conceived", although another said it seemed to have received a mixed response.

A syndicate official at IBJ said: "The only problem has been the weakness in the US Treasury market. Some investors are postponing their purchases until they reach the point where they feel that the market has gone too low."

The Kingdom of Sweden launched a $300m issue of fixed-rate two-year bonds, priced to yield 15 basis points over US Treasuries.

Joint lead manager Morgan Stanley said the deal met good demand, mostly in the European retail sector. The funds are believed to have been swapped into floating-rate dollars. One syndicate manager said he thought the deal was priced tightly, but added: "It was an opportunity that Morgan Stanley saw on the day and pounced on."

The Council of Europe Resettlement Fund launched its first sterling deal since 1984, £100m of two-year fixed-rate bonds priced to yield 17 basis points over gilts. The issue, which found demand among financial institutions in the UK and retail investors in Luxembourg and Switzerland, offered a wide yield spread against other European markets, said lead manager S.G. Warburg.

### NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book runner |
|---|---|---|---|---|---|---|---|
| US DOLLARS | | | | | | | |
| Japan Development Bank | 500 | 7.50 | 99.45R | Oct.1999 | 0.25R | +22(7⅛%-99) | IBJ/ Swiss Bank Corp. |
| Kingdom of Sweden | 300 | 6.875 | 99.906R | Nov.1996 | 0.125R | +15(6⅝%-96) | M.Stanley/Nomura Intl. |
| STERLING | | | | | | | |
| Council of Europe | 100 | 8.375 | 99.95R | Nov.1996 | 0.125R | +17(10%-96) | SG Warburg Securities |
| SWISS FRANCS | | | | | | | |
| 3M(a)♦ | 125 | 5.50 | 102.30 | May.1997 | - | - | Merrill Lynch Capt.Mkts. |

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ♦Unlisted. R: fixed re-offer price; fees are shown at the re-offer level. a) Long 1st coupon.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| | | Coupon | Red Date | Price | Day's change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| Australia | | 9.000 | 09/04 | 92.0200 | +0.010 | 10.30 | 10.20 | 9.52 |
| Belgium | | 7.250 | 04/04 | 91.6000 | -0.200 | 8.56 | 8.56 | 8.55 |
| Canada * | | 6.500 | 06/04 | 84.5500 | -0.350 | 8.92 | 8.95 | 8.76 |
| Denmark | | 7.000 | 12/04 | 86.5500 | -0.270 | 9.07 | 9.07 | 9.01 |
| France | BTAN | 8.000 | 05/98 | 101.2500 | -0.430 | 7.56 | 7.46 | 7.34 |
| | OAT | 5.500 | 04/04 | 82.3000 | -0.690 | 8.24 | 8.14 | 7.96 |
| Germany Treu | | 7.500 | 09/04 | - | - | - | 7.59 | 7.40 |
| Italy | | 8.500 | 08/04 | 81.9000 | -0.910 | 11.64† | 11.51 | 11.89 |
| Japan | No 119 | 4.800 | 06/99 | 103.4200 | -0.210 | 3.94 | 3.85 | 4.05 |
| | | 4.100 | 12/03 | 96.7030 | -0.440 | 4.61 | 4.53 | 4.89 |
| Netherlands | | 5.750 | 01/04 | 87.8000 | -0.420 | 7.63 | 7.55 | 7.39 |
| Spain | | 8.000 | 05/04 | 81.5000 | -0.180 | 11.22 | 11.16 | 11.18 |
| UK Gilts | | 6.000 | 08/99 | 89-10 | -12/32 | 8.74 | 8.72 | 8.37 |
| | | 6.750 | 11/04 | 85-21 | -22/32 | 8.92 | 8.90 | 8.59 |
| | | 9.000 | 10/08 | 100-30 | -27/32 | 8.88 | 8.86 | 8.51 |
| US Treasury * | | 7.250 | 08/04 | 97-05 | -10/32 | 7.66 | 7.54 | 7.21 |
| | | 7.500 | 11/24 | 95-25 | -13/32 | 7.87 | 7.78 | 7.50 |
| ECU (French Govt) | | 8.000 | 04/04 | 82.6200 | -0.460 | 8.75 | 8.70 | 8.49 |

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

### US INTEREST RATES

| Lunchtime | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| | | One month | 4.52 | Two year | 6.64 |
| Prime rate | 7¾ | Two month | 4.69 | Three year | 6.92 |
| Broker loan rate | 6½ | Three month | 4.84 | Five year | 7.39 |
| Fed.funds | 4⅝ | Six month | 5.48 | 10-year | 7.65 |
| Fed.funds at intervention | - | One year | 5.99 | 30-year | 7.85 |

### BOND FUTURES AND OPTIONS

#### France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 110.94 | 110.08 | -0.74 | 110.96 | 110.08 | 115,625 | 121,292 |
| Mar | 110.14 | 109.32 | -0.74 | 110.14 | 109.70 | 289 | 7,508 |
| Jun | 109.40 | 108.58 | -0.74 | 109.40 | 109.40 | 2 | 354 |

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

| Strike Price | Calls Nov | Calls Dec | Calls Mar | Puts Nov | Puts Dec | Puts Mar |
|---|---|---|---|---|---|---|
| 110 | - | 1.58 | 1.91 | 0.95 | 1.42 | - |
| 111 | 0.61 | 1.05 | - | 1.44 | 1.85 | - |
| 112 | 0.33 | 0.68 | - | 2.14 | 2.46 | 3.62 |
| 113 | 0.12 | 0.40 | - | 2.98 | 3.20 | - |
| 114 | 0.05 | 0.22 | - | - | 4.05 | - |

Est. vol. total, Calls 17,304 Puts 40,154 . Previous day's open int., Calls 215,802 Puts 298,541.

#### Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 88.95 | 88.32 | -0.48 | 89.10 | 88.21 | 79422 | 152283 |
| Mar | - | 87.70 | -0.38 | - | - | 0 | 1789 |

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

| Strike Price | Calls Nov | Calls Dec | Calls Jan | Calls Mar | Puts Nov | Puts Dec | Puts Jan | Puts Mar |
|---|---|---|---|---|---|---|---|---|
| 8800 | 0.95 | 1.31 | 1.16 | 1.50 | 0.63 | 0.99 | 1.46 | 1.80 |
| 8850 | 0.69 | 1.04 | 0.93 | 1.26 | 0.87 | 1.22 | 1.73 | 2.08 |
| 8900 | 0.47 | 0.80 | 0.73 | 1.05 | 1.15 | 1.48 | 2.03 | 2.35 |

Est. vol. total, Calls 8757 Puts 6053. Previous day's open int., Calls 210148 Puts 200956

#### Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 99.80 | 98.93 | -0.84 | 100.00 | 98.78 | 30642 | 64349 |
| Mar | 99.00 | 98.28 | -0.88 | 99.10 | 98.30 | 300 | 785 |

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

| Strike Price | Calls Dec | Calls Mar | Puts Dec | Puts Mar |
|---|---|---|---|---|
| 9850 | 2.15 | 2.81 | 1.72 | 3.03 |
| 9900 | 1.87 | 2.58 | 1.94 | 3.30 |
| 9950 | 1.61 | 2.37 | 2.18 | 3.59 |

Est. vol. total, Calls 1690 Puts 2744. Previous day's open int., Calls 15547 Puts 23317

#### Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 86.70 | 86.20 | -0.29 | 86.80 | 86.17 | 36,548 | 71,875 |

#### UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 99-28 | 98-29 | -0-27 | 100-06 | 98-25 | 55773 | 96029 |
| Mar | - | 98-09 | -0-27 | - | - | 0 | 0 |

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

| Strike Price | Calls Dec | Calls Mar | Puts Dec | Puts Mar |
|---|---|---|---|---|
| 98 | 2-16 | 2-53 | 1-22 | 2-35 |
| 99 | 1-44 | 2-23 | 1-50 | 3-05 |
| 100 | 1-14 | 1-60 | 2-20 | 3-42 |

Est. vol. total, Calls 976 Puts 3075. Previous day's open int., Calls 54327 Puts 34752

#### Ecu

■ ECU BOND FUTURES (MATIF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 80.10 | 79.44 | -0.44 | 80.10 | 79.36 | 850 | 8,753 |

#### US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 98-28 | 99-04 | +0-06 | 99-06 | 98-24 | 350,377 | 396,507 |
| Mar | 98-06 | 98-14 | +0-06 | 98-15 | 98-03 | 2,543 | 26,001 |
| Jun | 97-25 | 97-25 | - | 97-25 | 97-25 | 3 | 10,776 |

#### Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

| | Open | Close | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 107.69 | - | - | 107.70 | 107.52 | 3627 | 0 |
| Mar | 106.91 | - | - | 106.91 | 106.91 | 30 | 0 |

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

### FT-ACTUARIES FIXED INTEREST INDICES

| Price Indices UK Gilts | Oct 3 | Day's change % | Fri Sep 30 | Accrued interest | xd adj. ytd | | Low coupon yield Oct 3 | Sep 30 | Yr. ago | Medium coupon yield Oct 3 | Sep 30 | Yr. ago | High coupon yield Oct 3 | Sep 30 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Up to 5 years (24) | 119.32 | -0.10 | 119.44 | 1.95 | 8.39 | 5 yrs | 8.75 | 8.71 | 6.26 | 8.82 | 8.79 | 6.51 | 9.01 | 8.95 | 6.70 |
| 2 5-15 years (22) | 137.22 | -0.09 | 137.34 | 1.52 | 10.29 | 15 yrs | 8.71 | 8.68 | 7.08 | 8.84 | 8.82 | 7.22 | 9.05 | 9.02 | 7.45 |
| 3 Over 15 years (8) | 153.13 | -0.29 | 153.58 | 2.17 | 9.81 | 20 yrs | 8.67 | 8.61 | 7.21 | 8.84 | 8.82 | 7.29 | 8.95 | 8.89 | 7.47 |
| 4 Irredeemables (6) | 174.97 | -0.83 | 176.44 | 3.55 | 8.63 | Irred.† | 8.72 | 8.64 | 7.37 | | | | | | |
| 5 All stocks (60) | 135.09 | -0.13 | 135.27 | 1.81 | 9.62 | | | | | | | | | | |

| Index-linked | | | | | | | Inflation 5% Oct 3 | Sep 30 | Yr. ago | Inflation 10% Oct 3 | Sep 30 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 Up to 5 years (2) | 184.50 | -0.07 | 184.63 | 0.00 | 5.07 | Up to 5 yrs | 4.10 | 4.06 | 2.53 | 2.98 | 2.94 | 1.74 |
| 7 Over 5 years (11) | 172.47 | -0.24 | 172.88 | 0.83 | 3.95 | Over 5 yrs | 3.88 | 3.86 | 3.18 | 3.69 | 3.67 | 3.00 |
| 8 All stocks (13) | 172.85 | -0.22 | 173.23 | 0.74 | 4.04 | | | | | | | |

| Debentures and Loans | | | | | | 5 year yield Oct 3 | Sep 30 | Yr. ago | 15 year yield Oct 3 | Sep 30 | Yr. ago | 25 year yield Oct 3 | Sep 30 | Yr. ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9 Debs & Loans (76) | 124.98 | -0.44 | 125.53 | 1.85 | 8.89 | 9.91 | 9.85 | 7.85 | 9.84 | 9.78 | 8.15 | 9.77 | 9.71 | 8.28 |

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

### FT FIXED INTEREST INDICES

| | Oct 3 | Sep 30 | Sep 29 | Sep 28 | Sep 27 | Yr ago | High* | Low* |
|---|---|---|---|---|---|---|---|---|
| Govt. Secs. (UK) | 90.04 | 90.64 | 90.30 | 90.43 | 90.10 | 102.08 | 107.04 | 88.54 |
| Fixed Interest | 107.17 | 107.34 | 107.29 | 107.02 | 107.17 | 122.94 | 133.87 | 106.50 |

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

### GILT EDGED ACTIVITY INDICES

| | Sep 30 | Sep 29 | Sep 28 | Sep 27 | Sep 26 |
|---|---|---|---|---|---|
| Gilt Edged bargains | 122.2 | 111.7 | 137.9 | 104.5 | 101.0 |
| 5-day average | 115.5 | 114.2 | 118.4 | 107.1 | 113.8 |

## FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on October 3

| | Issued | Bid | Offer | Chg. | Yield |
|---|---|---|---|---|---|
| U.S. DOLLAR STRAIGHTS | | | | | |
| Abbey Natl Treasury 6½ 03 | 1000 | 89⅛ | 89½ | -⅛ | 8.31 |
| Alberta Province 7⅝ 98 | 1000 | 100 | 100⅜ | -⅛ | 7.62 |
| Austria 8½ 00 | 400 | 103 | 103⅜ | -¼ | 7.77 |
| Bank of Tokyo 8⅜ 98 | 100 | 101½ | 102⅛ | -⅛ | 7.23 |
| United Kingdom 7⅛ 97 | 5500 | 100⅝ | 100¾ | | 6.69 |
| Volkswagen Intl Fin 7 03 | 1000 | 93⅝ | 94¼ | -¼ | 8.04 |
| World Bank 0 15 | 2000 | 19½ | 20⅛ | -⅛ | 8.01 |
| World Bank 5⅞ 03 | 3000 | 87⅝ | 87¾ | -½ | 7.82 |
| World Bank 8¾ 00 | 1250 | 109½ | 110 | +¼ | 6.63 |
| Abbey Natl Treasury 8 03 £ | 1000 | 90 | 90⅜ | -⅛ | 9.77 |
| Alliance Leics 11⅜ 97 £ | 100 | 105⅝ | 105¾ | -⅛ | 8.91 |
| British Land 8⅞ 23 £ | 150 | 86¼ | 86¾ | -¼ | 10.65 |
| Denmark 6¾ 98 £ | 800 | 92½ | 92¾ | -¼ | 9.11 |
| EIB 10 97 £ | 637 | 102¾ | 103⅛ | -⅛ | 8.60 |

[illegible]

## UK GILTS PRICES

[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

The Financial Times plans to publish a Survey on

**Bolivia**

on Wednesday, November 9.

With over ten years of economic and political reform to its credit and the recent inauguration of its third successive democratic government, Bolivia is an increasing strength in Latin America. The survey will report on the country's economy, political scene, financial markets, privatisation policy and more.

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**FT Surveys**

## CONTRACTS & TENDERS


# LLAMADO A LICITACIÓN

**Fecha: 30/09/1994**
**Licitación No CI 120/94 - DT**

1. El estado do Paraná ha recibido del Banco Internacional de Reconstrucción y Fomento (en adelante denominado el "BIRF") un préstamo para sufragar parcialmente el costo del Programa de Saneamento Ambiental da Região Metropolitana de Curitiba - PROSAM y se prevé que parte de los fondos de este préstamo se ha de aplicar a pagos elegibles conforme al contrato de Ampliación de los Sistemas de Saneamiento en las ciudades de Curitiba, Araucária, Pinhais y Sao José dos Pinhais. Podrán participar en la licitación todos los licitantes do los países que reúnan los requisitos de elegibilidad que se estipulan en las Normas de Adquisiciones del BIRF.
2. La Companhia de Saneamiento do Paraná - SANEPAR, ejecutor del sub-programa PRA-03 del PROSAM, invita a los licitantes a presentar ofertas para la construcción de Ampliación de los Sistemas de Alcantarillado y construcción de cuatro Estaciones de Tratamiento de Aguas Servidas de las ciudades de Curitiba, Araucária, Pinhais y Sao José dos Pinhais, en el prazo de 540 a 810 días calendario, conforme a cada lote. Esta licitación se realizará en regimen de ejecución por precio global.
3. Los Licitantes podrán adquirir los documentos de licitación (y copias adicionales de los mismos) en Superintendência de Planejamento Técnico da SANEPAR, Calle Engenheiros Rebouças, 1376, Curitiba - PR telefono (041) 322 4546, internos 6012 y 6071, Fax (041) 224 6515, contra el pago de un cargo no reembolsable de R$ 500.00 por lote, o su equivalente en moneda de libre convertibilidad, por cada juego. Los interesados también podrán obtener más informaciones en esa dirección.
4. Las ofertas serán abiertas en presencia de los licitantes que deseen asistir a las 10:00 horas del dia 17/11/1994, en Auditório do Centro de Treinamento da SANEPAR, Calle Engenheiros Rebouças, 1376, Curitiba - PR.
5. La oferta deberá venir acompanada de una garantía de seriedad de la oferta de LOTE 01 = R$ 200.000,00, LOTE 02 = R$ 60.000,00, LOTE 03 = R$ 100.000,00, LOTE 04 = R$ 60.000,00, LOTE 05 = R$ 80.000,00, LOTE 06 = R$ 40.000,00, LOTE 07 = R$ 360.000,00, LOTE 08 = R$ 60.000,00, LOTE 09 = R$ 100.000,00, LOTE 10 = R$ 60.000,00, LOTE 11 = R$ 80.000,00, LOTE 12 R$ 20.000,00 o un monto equivalente en una moneda de libre convertibilidad, y Engenheiros Rebouças, 1376, Curitiba - PR, a más tardar a las 10:00 horas del 17/11/1994, oportunidad en la que las ofertas se abrirán en presencia de los representantes de los licitantes que hayan decidido asistir.

Ingº Marco Antonio Cenovicz Baggio
Director Presidente

Ingº Mário Augusto
Director Técnico


## COMPANY NEWS: UK

# Acquisitions behind advance at Badgerline

**By Simon Davies**

Badgerline, the Avon-based bus group, reported interim pre-tax profits more than doubled from £2.56m to £5.39m, primarily as a result of maiden contributions from acquisitions in West Yorkshire and Staffordshire.

Turnover, boosted by revenues from Rider and PMT Group, increased from £63.9m to £93.3m, but the group's core business showed a rise of 6 per cent in revenues and an 8 per cent improvement in operating profit to £5.46m (£5.05m). The interest charge was cut from £2.72m to £2.4m.

Mr Trevor Smallwood, chairman, said: "The second half *has started well, with the* group continuing to improve its performance compared with last year. Our policy remains one of additional margin enhancements and the pursuit of further acquisitions."

He said acquisitions had performed in line with budget. The two companies achieved profits of £2.32m, with operating margins of 9.1 per cent, compared with the 8 per cent recorded from its existing bus business.

Rider, which operates in Leeds, Bradford, Halifax, Huddersfield and York, has operating margins of 9.5 per cent, against 17 per cent for Badgerline's City Line in Bristol.

The group is rapidly increasing expenditure on new buses. It purchased 245 in the first half of the year, and will bring in a further 104 in the second half, and 450 a year over the next two years.

Rider is taking on 170 new vehicles to help reduce high engineering costs from an ageing fleet, and to give it greater flexibility on routes, through the introduction of a broader range of vehicles.

Badgerline was listed in November, and provided early disappointment by announcing that it was writing down the value of its Bath depot by £7.8m, after failing to get permission for its redevelopment into a retail centre.

Mr Smallwood said yesterday that Safeway was planning to revise and resubmit plans for the development, which provide the possibility of a subsequent write-back of asset values.

The company is to pay a 1.5p interim dividend, and has indicated that it will pay a 3p final. Earnings emerged at 3.6p (3.2p) or 3.5p (2.6p) fully diluted.

Tony Andrews

Trevor Smallwood: continuing the search for further acquisitions

**● COMMENT**

Badgerline has been the tortoise of one of the market's racier sectors, with depot write-downs being followed by a somewhat pedestrian operating performance. Its shares fell 6p to 119p, leaving it on a price-earnings ratio of 12.6 and yield of 4.7 per cent, based on forecasts of £16m for the year. However, it is negotiating further acquisitions and has greater efficiencies to generate from its £61m of recent purchases. It is in a growth sector, and at the current share price it looks undervalued.

# Further disposals at Lucas Industries

**By Paul Cheeseright, Midlands Correspondent**

The streamlining of Lucas Industries will continue with the sale of Lucas Management Systems, a software business, and the possible sale of Lucas Engineering & Systems, a consultancy specialising in manufacturing systems.

The disposals continue a line of divestments dating back to 1992 but come in immediate response to a review of the Lucas business which was undertaken by Mr George Simpson, chief executive since last April.

That review, Lucas noted *yesterday, had concluded that* resources should be increasingly directed at the group's automotive and aerospace interests, and further divestments were in prospect.

"We cannot have so many irons in the fire. There must be a focusing down to the real core businesses within Lucas," Mr Simpson said in August.

The two companies up for sale are part of the group's old applied technology division, now increasingly concentrated on the manufacture of electronic products.

Management Systems is based at Slough, following extensive cutbacks in 1992-93. It has annual sales of about £45m and employs 800 people. Engineering & Systems, whose business is based on sales within the Lucas group, has turnover of about £20m and a staff of 400.

Lucas would not say whether the companies were profitable.

# UK sales setback for Betterware

**By Richard Wolffe**

Betterware, the direct home-shopping group, yesterday reported a 48 per cent decline in interim pre-tax profits after its core UK sales shrunk by 9 per cent.

The group's shares shed 1p to 36p, well down from its peak of 278p in July last year. The drop in total turnover to £31.7m (£34.4m) was blamed on "a loss of momentum" among its sales force.

Betterware lost around 1,000 salesmen, or more than 9 per cent of its distributors, after opening a £10m distribution centre in Birmingham in January. The company said it had now recovered from the centre's "teething troubles", *which included unreliable* stock delivery.

Analysts cut their full-year forecasts for the second time in less than a month, from £9m to about £6.5m, in spite of company assurances that recruitment was improving and that average orders were holding steady at £8. Betterware lost more than a third of its market value two weeks ago, after issuing its third profits warning in five months.

Mr Peter Hartley, finance director, said the poor pre-tax profit figure was partly the result of the group's investment companies reporting an operating loss of £405,000 (£151,000 profit).

Profits for the 28 weeks to September 10 also suffered from new investment in computer-aided product design and start-up costs in Germany and Spain, which form part of the company's strategy of international expansion.

Last month, the company committed itself to providing up to $5m (£3.1m) over time in a joint venture with Avon, the direct seller of beauty products, to sell household goods in North and South America.

"I would point to the Avon deal as an absolute demonstration that the strategy of internationalisation is the correct one," said Mr Hartley. "I understand that the market needs short-term profit, that you cannot just promise jam tomorrow, but you also have to continue on a strategy that will develop in the future."

Earnings per share were halved at 2.53p (5p). The interim dividend was 0.85p (0.65p).

## FR acquisition

FR Group, the maker of in-flight refuelling equipment, has completed the acquisition of the business assets and certain liabilities of Sargent Fletcher for $10.6m (£6.7m), including $1.1m cash.

Net book value of assets being acquired amount to about $8.3m including liabilities of $2.1m.

Sargent Fletcher makes external fuel tanks and air-to-air refuelling systems.

## Stanhome buys

**Following its recent £37.2m offer for Lilliput Lane, Stanhome, the US-based collectibles company, is further expanding in the UK with an offer for Border Fine Arts, the Dumfriesshire-based figurines maker, for an undisclosed sum.**

**The move would take Stanhome to third place in the quality giftware market behind Waterford Wedgwood and Royal Doulton.**

## DIVIDENDS ANNOUNCED

| | | Current payment | Date of payment | Corres - ponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|
| Badgerline | Int | 1.5 | - | - | - | - |
| Betterware | Int | 0.85 | Jan 3 | 0.65 | - | 2.6 |
| Bilton | Int | 2.89 | - | 2.835 | - | 9.64 |
| Camellia | Int | 14 | Nov 17 | 13 | - | 31 |
| CI Group | Int | 0.2 | Jan 3 | 0.4 | - | 0.5 |
| Densitron Intl | Int | 0.5 | Dec 10 | 0.5 | - | 1.5 |
| Doeflex | Int | 1.6 | Nov 22 | 1.6 | - | 4.6 |
| Herring Baker | Int | nil | - | 0.5 | - | 1.5 |
| Lon & Ass Inv | Int | 0.05 | Dec 30 | 0.05 | - | 0.64 |
| QS Holdings | Int | 1.56 | Dec 6 | 1.56 | - | 5.19 |

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

# CI returns to black with £0.34m midway

**By Paul Cheeseright, Midlands Correspondent**

CI Group, the Wolverhampton-based engineer, returned to profit during the 1994 first half as trading performance improved after taking losses in the second half of the previous year.

Pre-tax profits for the six months to July 31 were £337,000 against £905,000 in the 1993 first half and a loss for the year to January 31 1994 of £1.53m.

"We are showing an improvement which *we believe will be on-going," said Mr Rob* Yates, the chief executive.

In the second half of last year, CI suffered difficult trading and charged the costs of a redundancy programme and the disposal of a lossmaking French company.

Turnover was £35.9m, against £35.3m, including £3.13m from discontinued activities, resulting in a 12 per cent increase in continuing operations.

Earnings per share were 0.26p (0.69p) against losses of 1.54p for the whole of the *previous year. The interim dividend is* being halved at 0.2p.

The company said that all but one of its businesses enjoyed better trading than in the previous half year.

Those supplying the construction industry improved largely through cost-cutting, while the re-rolling, foundry and reinforcement businesses, although trading better than at any time in 1993, faced raw material price increases.


CASH OFFERS
by
**CS FIRST BOSTON LIMITED**
on behalf of
**BFI ACQUISITIONS PLC**
a wholly owned subsidiary of
**BROWNING-FERRIS INDUSTRIES, INC.**
to acquire all the outstanding Ordinary Shares and American Depositary Shares
of
**ATTWOODS PLC**
and all the outstanding Convertible Preference Shares
of
**ATTWOODS (FINANCE) N.V.**

CS First Boston Limited ("CS First Boston") announces on behalf of BFI Acquisitions plc ("BFI (UK)") that, by means of a formal offer document dated and despatched on 3rd October, 1994 (the "Offer Document"), CS First Boston is making cash offers (the "Offers") on behalf of BFI (UK) to acquire all the unconditionally allotted or issued fully paid ordinary shares of 5p each in the capital of Attwoods plc ("Attwoods") (including Attwoods ordinary shares of 5p each represented by American Depositary Shares (each an "ADS")) ("Attwoods ordinary shares") and all the existing unconditionally allotted or issued fully paid 8.5p guaranteed redeemable convertible preference shares of 5p each in the capital of Attwoods (Finance) N.V. ("Attwoods preference shares") in each case not already owned by BFI (UK) and any further such shares which are unconditionally allotted or issued while the Offers remain open for acceptance (including any Attwoods ordinary shares unconditionally allotted or issued pursuant to the exercise of options granted under the Attwoods plc 1985 Share Option Plan and the Attwoods plc 1992 Overseas Employees Share Option Plan).

The Offers are made on the following bases: 109p in cash plus a pro rata entitlement to a contingent cash payment (the "Contingent Cash Payment"), if any, for each Attwoods ordinary share not represented by an ADS; 545p in cash plus a pro rata entitlement to the Contingent Cash Payment, if any, for each ADS; and 85p in cash for each Attwoods preference share.

The full terms and conditions of the Offers are set out in the Offer Document (including details of the Contingent Cash Payment).

This advertisement is not being published or otherwise distributed in or sent into Canada and persons reading this advertisement (including, without limitation, custodians, nominees and trustees) should not distribute, send, transmit or mail this advertisement, the Offer Document or any related documents, directly or indirectly, in or into Canada and doing so may render invalid any related purported acceptance of the Offers.

The Offers, which are made by means of the Offer Document, are capable of acceptance from 3rd October, 1994 in accordance with the terms set out or referred to in the Offer Document. The Offers extend to all persons to whom the Offer Document and any related documents may not be despatched and who hold Attwoods ordinary shares or Attwoods preference shares, or who are unconditionally entitled to have Attwoods ordinary shares or Attwoods preference shares allotted or issued to them. Such persons are informed that copies of the Offer Document, Forms of Acceptance in relation to the Attwoods ordinary shares (not represented by ADSs) and Attwoods preference shares, Letters of Transmittal and Notices of Guaranteed Delivery in relation to the Attwoods ordinary shares represented by ADSs will be available for collection from CS First Boston, One Cabot Square, London E14 4QJ during normal office hours during the period of the Offers.

This advertisement is published on behalf of BFI (UK) and has been approved by CS First Boston, a member of the Securities and Futures Authority, solely for the purposes of Section 57 of the Financial Services Act 1986. CS First Boston is acting for Browning-Ferris Industries, Inc. and BFI (UK) in relation to the Offers and no-one else, and will not be responsible to anyone other than Browning-Ferris Industries, Inc. and BFI (UK) for providing the protections afforded to customers of CS First Boston nor for providing advice in relation to the Offers.

The directors of Browning-Ferris Industries, Inc. and BFI (UK) accept responsibility for the information contained in this advertisement and, to the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this advertisement is in accordance with the facts and does not omit anything likely to affect the import of such information.

*4th October, 1994* CS FIRST BOSTON LIMITED



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# BFI says US practices would cut Attwoods' eps

By David Blackwell

Under US accounting practices for goodwill, earnings at Attwoods, the UK waste services group, would be more than halved.

That is one of the main points stressed in the offer document for the group published yesterday by Browning-Ferris Industries, the Texas-based waste management group, which launched a hostile £364m bid last month.

BFI is offering 109p cash for each ordinary share – just above the year's low of 105p. But using US accounting methods, estimated 1994 earnings would be cut from 5.3p to 2.5p, the document says.

At that level, the offer represents a premium of more than 115 per cent, BFI claims. If the group were to trade at the average multiple for US waste companies of 19 times, "Attwoods shares should be valued at around 50p".

In the US, goodwill is written off through the profit and loss account over up to 40 years.

In the UK it is taken through the balance sheet. At the end of July 1993 Attwoods had £179.1m of goodwill written off.

BFI, which attacks Attwoods financial record as "dismal", says that as the company makes 65 per cent of its operating profits in the US, a proper comparison with other US waste companies should reflect US accounting standards.

"All we are trying to do is compare apples with apples," said Mr Greg Muldoon, senior vice-president at BFI. "Attwoods earnings are *inflated by US standards.*"

Attwoods yesterday said the offer document provided "no further justification for the wholly inadequate offer outlined in its original press announcement." Mr Ken Foreman, chief executive, said BFI was making its offer to address its own weaknesses in Attwoods markets. It was "an unintended compliment to our strengths."

BFI also argues that Attwoods is not prepared to meet the challenges facing the waste management industry, and would perform much better if it were not standing alone. It criticises Attwoods' narrow focus on waste collection in North America.

At the same time BFI sees Attwoods UK business, which is more integrated, as an *important step in its plans to* expand into Europe.

BFI has already won the support of Laidlaw, of Canada, Attwoods' largest shareholder with 29.8 per cent of the ordinary shares and 73 per cent of the preference stock.

Laidlaw, which has three of its directors on Attwoods' board, has agreed to sell its ordinary shares at $8.50 per American Depositary Receipt – equivalent to five ordinary shares – and its preference shares at 85p even if a second bidder entered with a higher offer.

# MGN lifts Scottish TV stake to 20%

By Christopher Price

Senior executives from Mirror Group Newspapers and Scottish Television are to meet within the next week following the disclosure yesterday that MGN had increased its stake in STV from 15 to 20 per cent.

Sources at STV said that the *meeting had been sought by* MGN, although the subjects for discussion were not known. MGN refused to comment.

A statement from STV said: "The purchase of the balance of 5 per cent of STV shares was anticipated and takes MGN's stake to 19.99 per cent, the maximum allowed by the cross media ownership rules under the Broadcasting Act. MGN has reiterated its announcement of support for STV and its management."

MGN, through its subsidiary the Scottish Daily Record and Sunday Mail, bought 2.45m shares in STV at 520p per share at a total cost of £12.7m. The move follows the dawn raid of two weeks ago which netted the publishing group a 14.9 per cent stake for £37.4m.

Then Mr Murdoch MacLennan, chief executive of the Scottish Daily Record, had said: "We do not believe it is necessary for the two companies to come under common control for these benefits to be achieved."

STV shares closed down 1p at 493p. MGN shares were unchanged at 129p.

● Carlton Communications is paying £20m for the 10 per cent of shares it does not own in Carlton Television Holdings. The Telegraph and Gemina Investments, which each took a 5 per cent stake in the subsidiary prior to Carlton's successful franchise bid in 1991, will receive their payments as shares in the parent group. The payment to the Telegraph includes the cost of the original £1.3m investment, and for £2.1m of loan stock.

# Power talks behind schedule

By John McManus in Dublin

Power Corporation, the Irish property company, has signalled that negotiations on a vital new equity injection are not going as well as had been hoped.

The company said it had only a "reasonable prospect" of concluding a deal under which Insas, the quoted Malaysian property company, would invest I£50m (£49.4m) and take a 49.2 per cent stake. A placing with outside investors and an open offer to raise an additional I£50m is also planned.

*The negotiations with Insas* are behind schedule, admits Mr Tony Leonard, Power's managing director, but he maintains that there are no major stumbling blocks. "We have come across points that took longer to negotiate than expected," he said.

Mr Robin Power, the chairman, blamed the delays on the "complexity of the transaction, different time zones in Kuala Lumpur, the US, London and *Dublin and the number of parties involved.*"

The deal has to be approved by the syndicate of 14 banks which are currently owed I£230m and are supporting Power. Mr Leonard is hopeful the deal will be completed by the "end of autumn," but said there was no deadline.

Power, which desperately *needs the new equity injection*, has announced pre-tax losses of I£13.4m for the year to the end of March. Last year's losses of I£104.86m were one of the largest ever reported by a quoted Irish company, and were due mainly to exceptional write-offs of I£97.1m to cover Power's exposure to the bankrupt Trocadero development in London and falls in the value of its property portfolio in Ireland, Britain and the US.

Robin Power: blamed different time zones for delays

Trading losses have been cut from I£7.7m to I£5.2m as a result of property disposals and reductions in overheads, according to Mr Leonard.

Power's auditors have drawn *attention to the current status* of the group's banking arrangements in their opinion in the accounts, which have not yet been published. The auditors also draw attention to the negotiations on debt restructuring and the outcome of a compensation claim, but have not qualified the accounts according to Power.

Power is *currently pursuing* a claim against the Los Angeles Unified School District which has abandoned a compulsory purchase of a site owned by Power in Los Angeles.

# QS continues progress with £2.22m

By Peter Pearse

QS Holdings, the discount clothing retailer, continued the progress made in the second half of 1993 as it reported a 25 per cent increase in profits in the six months to July 29.

Profits at £2.22m pre-tax, against last time's low £1.68m, were struck on turnover ahead 17 per cent at £28.7m (£24.7m). The interim dividend is held at 1.56p from earnings per share of 3.43p (2.79p). Last time's payment was also maintained in spite of a profits fall. Yesterday the shares eased 3p to 170p.

There was no price inflation in the profits increase. There was no profits rise for continuing stores partly because the group does not count stores closed and then reopened in a different location.

During the period QS opened its 100th store – in Bristol – and by July 31 had 101 shops. In the six months the sales area increased by 7.5 per cent to 233,540 sq ft with the new stores in Luton, Bedford, Weston-super-Mare and Bristol.

Already the group has exceeded its target of adding a further 10 per cent of selling space in the year. So far it has added 12 per cent with stores in Harrow, Lowestoft, an extension in Croydon and the relocation to larger premises in Fareham.

Net cash stood at £5.7m, unchanged from the January 28 amount, as were stock levels. Interest receivable fell to £133,000 (£254,000).

Other operating income doubled to £126,000.

# ABF buys manufacturing base in US from Karlshamns

By Roderick Oram, Consumer Industries Editor

Associated British Foods has bought the US operations of Karlshamns, the Swedish foods group, giving the UK company its first manufacturing presence in the US.

ABF will use the subsidiary, to be renamed Abitec Corporation, as a base for making a wide variety of food ingredients. These will include stabilisers and emulsifiers which it already sells in British and continental markets to makers of bread, ice-cream, soups and other foods.

"We've been looking for a way to get into food ingredients in the US because they are more remunerative than some packaged foods," Mr Garry Weston, ABF chairman, said.

In common with other UK bakers, ABF has come under severe pricing pressure from supermarkets' own-label breads. ABF, the UK's leading baker, produces under its own brands such as Allinson's as well as supermarkets' brands.

The assets being bought include a plant in Columbus, Ohio, and one in Janesville, Wisconsin, which process vegetable oils to produce food ingredients and products for healthcare. It makes a small profit on annual turnover of $150m (£95m).

ABF had been negotiating with Karlshamns for more than a year. It declined to disclose the purchase price. The Swedish group, which had over-extended by expanding rapidly overseas during the last decade, has had to retrench by selling some subsidiaries.

"Over the next four or five years we will have invested about $100m" in US manufacturing, Mr Weston said. Turnover of Abitec Corporation could double over the same period.

# Nat Power and Transco to settle out of court

By Michael Smith

National Power has reached a settlement with Transco Energy of Houston, the gas trading company, over a dispute arising from its $150m purchase last year of American National Power from that company. Litigation between the two companies has now been withdrawn.

As part of the settlement, Transco has agreed to exercise its right of first refusal to buy back TrenFuels, a fuel services company and ANP subsidiary. National Power has received $12.5m for TrenFuels, which it says was not material to ANP's generation business.

National Power's obligation to Transco to settle some balance sheet issues has been agreed at $8m. It has received the net sum of $4.5m from Transco, which it says will not affect its 1994/95 earnings.

# Brighter prospects for RTZ in Papua New Guinea

By Simon Davies

RTZ's attempts to develop the Lihir gold mine in Papua New Guinea have taken a positive turn, with the newly installed government of Sir Julius Chan promising to speed up talks over a special mining licence.

It is estimated that Lihir will produce 589,000 ounces of gold a year for the first eight years, with sufficient reserves for 37 years of production.

RTZ currently owns 80 per cent of the mine, with Niu Guinea Mining owning the remainder. However, the project's equity structure remains under negotiation.

RTZ also announced yesterday the sale of its Ridgeway *Gold mine to Toronto-based* Kinross Gold for $47m (£29.7m).

Ridgeway is expected to produce 125,000 ounces of gold this.

# Bilton edges ahead to £9.06m

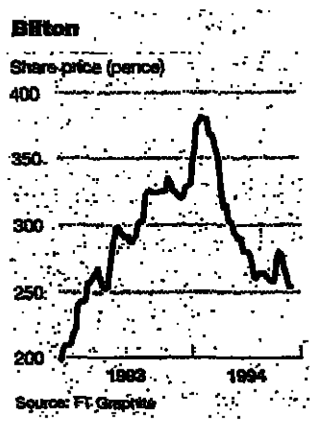
By Christopher Price

Patchy trading conditions in the south-east industrial property market were yesterday blamed by Bilton for the marginal improvement in pre-tax profits from £8.99m to £9.06m for the half year to June 30.

Investment income fell from £11.16m to £11.11m, and Mr Tim Goodwin, finance director, said that rents remained under pressure. "Rental levels are flat and it is difficult to say *what is going to happen.*"

The net asset value declined from 372p to 325p a share following the 11 per cent drop in the value of the group's property investment portfolio reported in April.

Earnings per share were flat at 7.1p, while the interim dividend improved marginally to 2.89p (2.84p).




Turnover from ordinary activities at the trading level increased by 23 per cent to £5.88m (£4.78m).

Trading conditions in the housebuilding, plant hire and contracting side were difficult. Mr Hugh Free, the chairman, commented: "Profitable work remains scarce and the housing market continues to be uncertain."

Rents receivable improved slightly at £12.52m (£12.5m), although there was an increase in ground rents which affected the overall investment income.

Mr Goodwin said there were *a few positive signs within the* property sector, such as fewer companies closing and a corresponding rise in the number of companies renewing leases.

However, he added that conditions remained too uncertain to comment on the trading outlook for the full year.

# Fleming £50m trust launch

By Bethan Hutton

Fleming Investment Management is planning to raise at least £50m with the launch of an investment trust specialising in natural resources.

The trust will hold a broad international portfolio of companies involved in the extraction, cultivation and processing of natural resources.

*It will be managed by the* fund managers team now responsible for three Save & Prosper commodity unit trusts.

An institutional placing of shares is due to start next week, followed by a public offer at the beginning of November.

## NEWS DIGEST

### Doeflex 31% ahead to £0.95m

Doeflex, the thermoplastics manufacturer, reported a 31 per cent rise in pre-tax profits for the six months to June 30, from £725,000 to £950,000. Turnover increased 16 per cent, from £15.9m to £18.5m.

Earnings per share were 6.28p (5.22p) and the interim dividend is unchanged at 1.6p.

### Densitron up 45%

Pre-tax profits of Densitron International, the electronic components group, rose by 45 per cent from £251,000 to £365,000 in the six months to June 30.

Turnover grew from £21.3m to £22.1m and the pre-tax advance was achieved despite reorganisation costs of £104,000 in its Japanese operation.

Earnings per share came out at 1.13p (1.12p) and the interim dividend is maintained at 0.5p.

### TransTec

An article published on September 28 noted that TransTec's shares had traded at more than 500p in 1992. The contrast drawn with the current price was misleading because the shares were subdivided 1-for-5 in October 1993.

### Bisichi Mining

Bisichi Mining raised pre-tax profits from £102,000 to £193,000 in the first half of 1994, after including this time an exceptional £141,000 mostly from the sale of an investment in a company recovering diamonds from the ocean floor of Namibia.

Earnings per share were 1.72p (0.74p). Net assets grew 10 per cent to £5.49m at June 30, against £5m a year earlier.

### Equifax bid

The £51m, or 650p a share, bid by Equifax, the US credit data group, for UAPT-Infolink, the British credit reference company, has been declared unconditional. Equifax has received valid acceptances in respect of 5.54m UAPT shares, about 71.4 per cent of the issued ordinary share capital.

### Capita in £4.5m buy

Capita Group, the provider of outsourcing, advisory and property services to the public sector, is to acquire Beard Dove for a maximum £4.5m.

The initial consideration of £2.7m will be satisfied by the issue of 656,416 Capita shares at 169.1p apiece along with £1.64m in cash.

An additional profits-related payment of up to £1.8m may become payable, satisfied by the issue of either ordinary *shares or loan notes, or by a* combination of the two.

### Pearson disposal

Pearson, the media and entertainment group which owns the Financial Times, is to receive at least £106m net from the sale of shares in Camco International, the Houston-based oil services company.

Pearson has sold 8.15m shares through an underwritten public offer at $19 per share. In addition, 1m shares are being bought by Camco when *the offer closes, at the* same net price, leaving Pearson with an estimated £106m.

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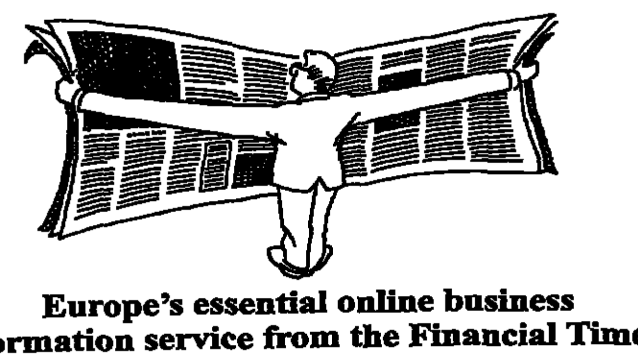

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Holders of ordinary bearer share certificates with nominal value Dfl. 1.00 should submit them to the offices of MeesPierson, Rokin 55, 1012 KK Amsterdam, the Netherlands, for exchange into share certificates with nominal value Dfl. 0.10. These new certificates will be available as K-certificates in denominations of 1, 10, 100, 1,000 and 10,000 and as CF-certificates in denominations of 1, 10, 100, 1,000, 10,000 and 1,000,000.

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## COMPANY NEWS: UK

# Shoprite shares fall on further profits warning

**By Neil Buckley**

Shoprite, the discount food retailing chain which operates mainly in Scotland, yesterday issued its second profits warning in four months, saying it expected only to break even at operating level this year.

Shares in the Isle of Man-based group fell 4p to 28p as it issued a statement warning that trading was still "very difficult".

Shoprite's shares peaked at 243p in February, when they were the best performers in the food retailing sector, but slumped after the group rushed out its interim results prematurely in May because they were below expectations.

After a planned sale and leaseback deal on stores fell through in June, Shoprite said in July it was cutting back its store expansion, selling non-core assets, and expected full-year profits to be significantly below last year.

Mr Charles Good, managing director for Scotland, said yesterday that as the group now looked likely only to break even at operating level in the year to October 30, it had decided to issue a further statement.

Shoprite, a classic "hard" discounter with more than 80 stores in Scotland selling a limited number of goods in no-frills surroundings, has suffered badly from the intense price competition - centred on basic goods - in the grocery market over the past year.

Mr Good said trading had remained "extremely difficult" over the summer, although he was pleased with the results of Shoprite's latest initiatives, including a television advertising campaign, repositioning of its product range, and further price cuts on basic products.

"We have got to hope that we have been through the trough," he said.

He added that the disposal programme was progressing "satisfactorily" with some significant deals in the pipeline.

# Research spending pushes up losses at Chiroscience

**By Tim Burt**

Trevor Humphries

Founder and chief scientist Chris Evans: new non-executive role

Chiroscience Group, the biotechnology company which floated in February, yesterday unveiled a divisional restructuring and plans to acquire a manufacturing plant.

The move follows a six-month operational review by Mr John Padfield, chief executive, who is determined to broaden the group's customer base. "We must refocus the group to maximise our opportunities," he said.

The company has been reorganised into two operating divisions: one focused on manufacturing synthons - the chemical components used by drug companies in new products - and the other on developing its own drug portfolio.

Mr Chris Evans, the company's founder and chief scientist, will no longer have a role in the day-to-day management of the division but will oversee "strategic issues" as a non-executive director.

Among these, the group has identified Levobupivacaine, its single isomer local anaesthetic, as a potential "blockbuster" in a market worth an estimated $200m a year. It is discussing collaborative ventures with several leading drug companies to further develop the drug, which has begun phase two clinical trials.

It is also confident that Dexketoprofen, its anti-inflammatory drug, will begin to contribute profits next year following its anticipated launch by Menarini, Italy's largest domestic drugs company.

Research spending helped push up pre-tax losses from £1.33m to £3.75m in the six months to August 31, in line with expectations. Costs were partly offset by gross profits of £391,000 (£745,000), but the figures were dented by administrative expenses of £814,000 (£437,000) following increased recruitment.

Costs will increase further in the second half as another 80 staff are hired to boost research. After this year's £45m rights issue, however, the company still has £34m (£8.6m) in cash and investments to fund future expenditure.

Turnover was £757,000 (£1.34m) and losses per share 5.5p (4.7p), with no dividend.

## NEWS DIGEST

# Camellia edges ahead to £6.65m

Camellia, the investment concern with interests including fine art and tea plantations, announced a small increase in pre-tax profits from a restated £6.49m to £6.65m in the first half of 1994.

However, Lawrie Group, the tea and coffee producer and Camellia's main subsidiary, reported reduced net profits.

Mr Gordon Fox, the chairman, said that because of the uncertain outlook for its art galleries and a difficult year generally for tea producers in India and Bangladesh, profits for the full year were likely to be lower than the £21.6m achieved in 1993.

Turnover amounted to £95.4m (£83.3m) including £5.1m from acquisitions. Investment and other income rose to £821,000 (£574,000).

The interim dividend is lifted to 14p (13p), payable from earnings of 49p (53.04p) per share.

### Herring Baker

In another difficult six months Herring Baker Harris Group, the chartered surveyor, cut its interim pre-tax loss from £1.08m to £306,000. However the dividend is being passed.

Turnover for the half year to July 31 was lower at £7.48m, against £8.48m which included £618,000 from discontinued activities. Losses per share fell to 2.47p (8.95p). There was an interim payment of 0.5p last time.

### Gates slides 8%

Pre-tax profits at Frank G Gates, the Essex-based car dealer, fell 8 per cent for the six months to June 30, from £1.15m to £1.06m. Turnover improved from £34.6m to £38m.

Mr Edward Gates, chairman, said it was largely due to the 30 per cent rise in profits on contract and daily hire that the results were only marginally reduced on last year's.

Combined sales of new and used cars showed a 20 per cent increase. However, departmental profits fell 18 per cent, with profits from the sale of used cars almost three times those from the sale of new vehicles as margins continued to decline.

Earnings per share were 3.51p (3.6p). Mr Gates said he did not expect 1994's full-year figures to improve on 1993.

### Porth losses

Losses at Porth Group, the USM-quoted decorations, packaging and framing products concern, incurred increased pre-tax losses of £2.06m for the first half of 1994, against £1.89m last time.

Turnover slipped to £2.11m (£2.2m) and interest charges were £306,000 (£189,000). Losses per share came to 10.8p (9.8p).

### London & Assoc Inv

Pre-tax profits at London & Associated Investment Trust, the property investment company, were 21 per cent ahead for the half year to June 30, from £713,000 to £865,000.

Turnover from property and listed investments rose 16 per cent to £2.54m (£2.2m). The company's net assets increased by 27 per cent to £35.8m.

Earnings per share were 0.74p, compared with 0.64p, and an interim dividend of 0.05p is maintained.

### Chez Gérard ahead

Groupe Chez Gérard, the restaurant operator, reported pre-tax profits up 74 per cent to £1.67m for the year to June 26, £50,000 ahead of the forecast made when it came to the market in March.

Turnover rose 10 per cent to £10.2m, against £9.27m when the pre-tax profit was £959,000. The company said costs continued to kept under control resulting in an increase in operating margins to 16.4 per cent.

The result was also helped by a fall in net interest charges from £206,000 to £42,000. During the year capital spending was £682,000 of which £380,000 related to the acquisition of Scotts Restaurant. The company plans to expand by two to four restaurants a year.

Earnings per share were 7.28p (4.84p).

### Glynwed purchase

Glynwed, the engineering, consumer and building products group, has bought Wilford Plastics (Holdings), a distributor of thermoplastic systems, for £6.1m in cash.

Wilford had operating profits of £330,000 on sales of £5.92m in the year to September 30.

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A fund has been established in memory of the distinguished *Financial Times* journalist and editor of *Power in Europe*, Andy Holmes. The British Institute of Energy Economics (BIEE) is to give an annual research award of £1,000, subject to finding a suitable candidate. The arrangements are being administered by BIEE. The award is open to men and women between the ages of 21 and 35, resident in the United Kingdom, and who are interested in energy issues.

Applicants should submit a two-page original and non-technical research proposal related to energy or to energy and the environment, and likely to lead to a 5,000-10,000 word paper. This proposal should reach the address below by October 31, 1994 with a cover note giving details of address, phone and fax numbers plus university or company affiliation, if any. A shortlist of applicants will then be drawn up and interviewed in London in December. The winner will receive half the money on winning the award and the remainder on completion of the paper. The results will be announced in early 1995.

The aim of the award is to encourage young managers, postgraduates and others to think about the wider issues of energy policy. Topics could include the European Energy Charter, global warming, the impact of China's economic growth on energy demand, policy on the the development of alternative transport fuels, the future of nuclear power, third party access to transmission grids etc. These are purely illustrative. The judges do not wish to specify a precise topic, but the subject matter and final essay should be fully comprehensible to a non-scientific or non-technical audience. The winner may be asked to present his or her findings at a BIEE meeting, and the resulting paper may be published in shortened form in the *FT Energy Economist*.

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## COMMODITIES AND AGRICULTURE

# Rubber pact members try to break deadlock

By Frances Williams in Geneva

Rubber producing and consuming countries yesterday began a second round of talks on a new price-stabilising commodity pact to succeed the 1987 International Natural Rubber Agreement. The negotiations will centre on the key issues of the price level and range for buffer stock operations.

Mr Peter Lai, chairman of the talks, has put forward new price proposals to break the deadlock that prevented agreement on a new accord at the last negotiating session in April. However, despite expressing cautious optimism that a deal can be reached this time, the two sides have shown little sign of shifting their positions.

Consumer countries, led by the US and European Union, have so far resisted the demand by producers for an increase in the reference price for rubber. This has remained basically unchanged since the first rubber pact was agreed in 1979. The current reference price is 196.84 Malaysian/Singapore cents a kilogram with a range of 15 to 20 per cent either way before buffer stock operations come into play.

The present round of talks takes place against a backdrop of an unexpected surge in rubber prices this summer which enabled the buffer stock manager to sell most of the 222,000 tonnes accumulated over four years of depressed prices.

The reasons for the sharp rise in prices include heavy rains in the three main exporting countries – Thailand, Indonesia and Malaysia – which restricted tapping, increased imports by China in particular, stockbuilding in industrialised countries, where economic recovery is under way and purchases by investment funds.

Some analysts believe this could signal a fundamental shift in the balance of world supply and demand, from abundance and low prices to scarcity and generally higher prices. This would underpin the producers' case for a higher reference price.

The 1987 accord, the only international commodity pact remaining with price-stabilising provisions, is due to expire on December 28 but can be extended for a further year if no agreement is reached this time.

The two-week meeting, under the auspices of the United Nations Conference on Trade and Development, is being attended by 33 countries, accounting in 1993 for 97 per cent of world exports and 72 per cent of world imports. The main consumers, apart from the US and EU, are Japan and China.

# Norway to step up Statfjord oil recovery

By Karen Fossli in Oslo

Statoil, the Norwegian state oil company, expects to increase recovery from the prolific North Sea Statfjord field by 230m barrels of oil worth an estimated NKr23bn (£2.05m) at current prices.

"We are pushing the recovery from the Statfjord field to the limits," Ms Wenche Skorge, a Statoil spokesperson, said yesterday.

The field's recoverable reserves are to be upgraded to 3.89bn barrels from 3.69bn, marking the fourth upgrade since production of crude oil came onstream in 1979 and lifting the recovery factor to 62 per cent against an average 40 per cent from other Norwegian North Sea fields.

By the end of this year about 3bn barrels of these reserves will have been produced but daily average production this year has reached 650,000 barrels, exceeding the 1993 production plan for 600,000 barrels.

Statoil attributes the potential to increase recovery from the field to the development of expertise in reservoir engineering, highly-deviated well drilling and extended reach-horizontal well drilling – so called "designer wells" – enabling the tapping of oil from the Brent and Statfjord reservoirs that would not be possible with conventional technology.

For the Statfjord reservoir a new drainage strategy – in which water will be injected into the gas-filled reservoir so as to drive residual oil towards production wells – is expected to boost production by an estimated 88m barrels and the recovery factor by 80 per cent from this formation.

An improved and growing understanding of the Upper and Lower Brent reservoirs is expected to sustain a high rate of recovery over a longer period, potentially yielding 132m barrels more of oil from these structures.

# Bumper crop puts cotton prices under pressure

## This year's US harvest could be the biggest in nearly 60 years, writes Laurie Morse

The US cotton harvest is moving into full swing in the US Mississippi Delta region this week, with farmers projected to bring in the largest crop in nearly 60 years. Although traders and cotton merchants initially scoffed at the US Department of Agriculture's forecast of a record-breaking harvest of 19m bales (480lb each), early harvest data show the estimate is on target.

"Our cotton is picking a little better than it looks, and I'm hearing the same thing from folks in Louisiana and Arkansas," says Mr Will McCarty, Extension Cotton Specialist with Mississippi State University.

"The farmer that was expecting to get about 775lb per acre is getting 800. What that means is the mid-South cotton crop could be a little bigger than expected".

Texas is the only state reporting disappointing yields in the early harvest period. Its crop suffered from localised early-season drought. While some traders still expect the USDA to reduce its crop estimate as the harvest progresses, local agricultural agents say it appears gains in the delta region will more than offset any shortfall in the Texas harvest.

Prices as high as 86 cents a pound during the the spring planting season provided a strong incentive for farmers to seed more acres than usual to cotton, says Mr Kevin Brinkley, an economist with the National Cotton Council. Since then, as the reality of an extra-large crop has sunk in, the market has dropped into a range of 65 to 75 cents a pound, and is now feeling pressure from the harvest.

However, even with the world cotton production situation much improved over last year, when China, India, and Pakistan all had crop shortfalls, the US producer will still benefit from strong exports, Mr. Brinkley says.

Last year, when world cotton production fell to 76m bales, the US exported 7m bales of raw cotton. This year, with world output projected to rise to 86m bales, US producers expect to export 7.3m bales.

US manufacturers are also getting better at exporting finished cotton. They will ship the equivalent of 2m bales in finished textile products overseas this year, compared with only 429,000 in 1984, according to National Cotton Council statistics.

Mr James Steel, a commodities analyst with Refco in New York, notes that US cotton consumption is also rising. "Domestic demand is the highest it's been since the 1947," he says. "We're currently projecting domestic consumption at 11m bales, but it could go even higher." He is also optimistic that as Japan and Europe emerge from recession, cotton demand will increase in those regions.

Over the longer term, Mr Steel sees world cotton demand rising as developing countries like China and India succeed in boosting the 'real incomes of their vast populations. "China is consuming far more of its own cotton than ever before, and while their own harvest is better than last year, they still need to buy US cotton to mix to get the quality they need. The US is expected to ship about 1m bales of cotton to China this year, down only slightly from last year's 1.069m."

# Logistical snags are tying up aluminium stocks, says report

Logistical snags are tying up aluminium warehouse stocks and contributing to a supply tightness that could boost ingot prices above $1 a pound ($2,204 a tonne) by mid-1995, according to industry analyst Stewart Spector, reports Reuters from New York.

In the latest issue of the Spector Report, he also said the shortage could prompt Western producers to restart idled capacity by mid-1995 to keep prices from rising too quickly.

"While a large statistical ingot surplus does exist, it's not all available for immediate delivery to markets where demand is rising rapidly. . . It is possible, in our opinion, that by the end of 1995 Western smelters could be operating at nearly 100 per cent capacity."

Spector said that London Metal Exchange warehouses in Rotterdam, with 1.1m tonnes of aluminium, are the principal and most convenient location for shipping ingot to the world market. Total LME warehouse stocks now stand at 2.31m tonnes, down 13 per cent from the mid-June record.

The report suggested that logistical problems at Rotterdam could limit weekly aluminium shipments to about 30,000 to 40,000 tonnes in the next several months, short of the optimum 60,000 tonnes.

"At that rate, it could take well into 1995 to empty Rotterdam's warehouses," Spector said.

The result, he said, was likely to be a further jump in aluminium prices to between 80 and 85 US cents a pound by the end of 1994 and to $1.20 to $1.30 by the end of the first quarter or early in the second quarter of 1995. The current price is 72 cents a pound.

Spector also estimated that western aluminium shipments this year would rise 10 per cent, while production would slip 4.6 per cent to 14.4m tonnes. Stocks were projected to fall by 655,000 tonnes.

For 1995, Spector forecast that shipments would rise 6.5 per cent, with production likely to grow 3.6 per cent to 14.9m tonnes.

Meanwhile, a worldwide shortage of alumina (aluminium oxide) was likely to keep Russian primary aluminium production at or below current levels for the next few years, the report said, while the state of disrepair at Russian smelters would also weigh on output levels.

"The CIS [Commonwealth of Independent States] ingot that started flowing into the West in 1990 and trashed ingot prices could soon fade away as an industry concern," it suggested. "In 1995, the Western aluminium industry may finally get its share of the peace dividend."

Spector predicted that, if western primary producers returned to full capacity in the middle of next year and if Chinese and eastern European alumina imports remained at current levels, the market might see an annual alumina shortfall of 2m tonnes in 1996 and 1997.

That could result in a cut in Russian alumina imports and reduced production, he said.

He forecast Russian production at 2.66m tonnes this year, off 5.6 per cent from 1993, with a further decline to 2.58m tonnes possible next year.

# Hydro seeks to update Russia's Bratsk smelter

Norway's Hydro Aluminium is seeking to rehabilitate Russia's Bratsk aluminium smelter, the biggest in the world, to improve efficiency and environmental standards, according to a company official, reports Reuters from Moscow.

A delegation from Hydro Aluminium, part of the Norsk Hydro group, visited Bratsk last month to discuss the project. "It was a very positive meeting," said Mr Odd Eğestad, senior vice-president in charge of aluminium at Hydro's Moscow office. Negotiations were well advanced, but no contract had been signed yet, he added.

Officials at the central Siberian smelter, where environmental groups have voiced concern over pollution, were not immediately available for comment.

The Kommersant Daily newspaper reported that officials at the Bratsk plant, which has capacity to produce up to 820,000 tonnes of aluminium a year, were studying reconstruction and modernisation proposals submitted by virtually every leading aluminium company in the world.

It said the Russian officials were impressed with the Norwegian technology, but gave few details.

Mr Eğestad said that Hydro Aluminium wanted to improve existing facilities at the Bratsk smelter "in a way that they would reach almost the same results, in terms of both efficiency and the environment, as if they were rebuilding with expensive pre-baked technology".

The Bratsk smelter is equipped with Soderberg type pots. The more expensive pre-baked technology has come to dominate in the western aluminium industry.

"In Bratsk, we are just modernising the Soderberg cells. With our technology, we will achieve almost the same effect for almost the same cost," Mr Eğestad said.

## Acknowledgement

The photograph in the centre page of our May 17 survey on world forest products should have been credited to Jay Maisel of New York.

MARKET REPORT

# Coffee futures lose steam

London Commodity Exchange COFFEE futures lost steam and closed lower in thin volume following arbitrage selling and conflicting reports about the Brazilian weather situation, dealers said. COCOA prices also slipped as dealers awaited news regarding the size of the Ivory Coast's crop.

At the London Metal Exchange COPPER prices staged an impressive rally on short-covering and fresh buying in the afternoon to break back above $2,480 a tonne for three months delivery. The ALUMINIUM market sucked in speculative buying as the three months price pushed back above $1,620 a tonne.

Compiled from Reuters

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE** (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1602-3 | 1627-8 |
| Previous | 1592-3 | 1617-8 |
| High/low | 1590/1589.5 | 1629/1612 |
| AM Official | 1589.5-90.5 | 1614.5-5 |
| Kerb close | | 1627-9 |
| Open int. | 252,557 | |
| Total daily turnover | 42,010 | |

■ ALUMINIUM ALLOY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1645-55 | 1665-70 |
| Previous | 1635-45 | 1655-60 |
| High/low | | 1670 |
| AM Official | 1640-50 | 1655-60 |
| Kerb close | | 1667-70 |
| Open int. | 3,071 | |
| Total daily turnover | 294 | |

■ LEAD ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 622.5-3.5 | 636.5-7 |
| Previous | 620-1 | 634-5 |
| High/low | | 636/632 |
| AM Official | 617.5-8.5 | 631.5-2 |
| Kerb close | | 637-8 |
| Open int. | 41,265 | |
| Total daily turnover | 5,564 | |

■ NICKEL ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 6320-30 | 6420-30 |
| Previous | 6360-70 | 6460-70 |
| High/low | 6275 | 6420/6330 |
| AM Official | 6260-5 | 6360-70 |
| Kerb close | | 6380-5 |
| Open int. | 70,057 | |
| Total daily turnover | 14,003 | |

■ TIN ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 5355-60 | 5435-40 |
| Previous | 5310-20 | 5390-400 |
| High/low | 5268 | 5435/5360 |
| AM Official | 5268-90 | 5365-70 |
| Kerb close | | 5435-40 |
| Open int. | 15,864 | |
| Total daily turnover | 4,214 | |

■ ZINC, special high grade ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1000.5-1.5 | 1030-1 |
| Previous | 1006-7 | 1029-30 |
| High/low | | 1032/1020 |
| AM Official | 1003-3.5 | 1026-6.5 |
| Kerb close | | 1029-30 |
| Open int. | 98,290 | |
| Total daily turnover | 17,334 | |

■ COPPER, grade A ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 2471.5-2.5 | 2486-7 |
| Previous | 2476.5-7.5 | 2490-1 |
| High/low | 2446/2443 | 2492/2455 |
| AM Official | 2446-7 | 2462-3 |
| Kerb close | | 2490-1 |
| Open int. | 223,842 | |
| Total daily turnover | 97,001 | |

■ LME AM Official £/$ rate: 1.5758

LME Closing £/$ rate: 1.5762

Spot: 1.5785 3 mths: 1.5773 6 mths: 1.5729 9 mths: 1.5673

■ HIGH GRADE COPPER (COMEX)

| | Close | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 116.40 | -3.00 | 116.50 | 114.80 | 2,570 | 887 |
| Nov | 114.30 | -2.15 | - | - | 911 | 257 |
| Dec | 114.50 | -1.95 | 114.80 | 112.60 | 39,869 | 3,129 |
| Jan | 114.00 | -1.75 | 114.10 | 113.80 | 558 | 126 |
| Feb | 113.60 | -1.65 | 113.60 | 113.50 | 436 | 74 |
| Mar | 113.20 | -1.55 | 113.50 | 111.65 | 5,834 | 1,509 |
| Total | | | | | 56,133 | 6,367 |

### PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

| Gold (troy oz) | $ price | £ equiv. |
|---|---|---|
| Close | 394.70-395.10 | |
| Opening | 393.50-393.90 | |
| Morning fix | 393.45 | 249.635 |
| Afternoon fix | 393.15 | 248.955 |
| Day's High | 394.90-395.30 | |
| Day's Low | 392.40-392.80 | |
| Previous close | 393.60-394.00 | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 4.55 | 6 months | 4.88 |
| 2 months | 4.50 | 12 months | 5.25 |
| 3 months | 4.65 | | |

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 350.85 | 552.50 |
| 3 months | 355.55 | 559.65 |
| 6 months | 361.15 | 567.00 |
| 1 year | 375.00 | 584.45 |

| Gold Coins | $ price | £ equiv. |
|---|---|---|
| Krugerrand | 396-399 | 251-253 |
| Maple Leaf | 405.60-408.05 | - |
| New Sovereign | 92-95 | 58-61 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 394.6 | +0.8 | 395.2 | 392.6 | 865 | 1,069 |
| Nov | 395.8 | +0.8 | - | - | - | - |
| Dec | 398.2 | +0.6 | 399.8 | 396.7 | 112,343 | 25,818 |
| Feb | 401.6 | +0.7 | 403.5 | 399.0 | 19,668 | 387 |
| Apr | 405.1 | +0.7 | 406.4 | 402.8 | 7,235 | 64 |
| Jun | 408.7 | +0.8 | 410.0 | 408.5 | 10,233 | 332 |
| Total | | | | | 185,124 | 27,839 |

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 418.8 | +0.4 | 419.4 | 415.5 | 1,421 | 1,056 |
| Jan | 423.6 | +1.2 | 424.0 | 418.5 | 17,647 | 3,442 |
| Apr | 427.1 | +1.4 | 428.0 | 422.0 | 2,672 | 413 |
| Jul | 430.6 | +1.4 | - | - | 524 | 50 |
| Oct | 433.1 | +1.4 | - | - | 335 | - |
| Total | | | | | 22,599 | 4,963 |

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 152.25 | +0.55 | - | - | 2 | 2 |
| Dec | 153.25 | +0.55 | 153.25 | 151.50 | 4,981 | 232 |
| Mar | 154.25 | +0.55 | 154.75 | 152.25 | 1,322 | 35 |
| Jun | 155.35 | +0.55 | - | - | 152 | - |
| Total | | | | | 6,457 | 269 |

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 564.7 | +3.8 | - | - | 3 | - |
| Nov | 567.0 | +3.8 | - | - | - | - |
| Dec | 569.5 | +3.8 | 572.0 | 557.0 | 93,801 | 15,141 |
| Jan | 572.1 | +3.8 | 561.0 | 561.0 | 43 | - |
| Mar | 578.1 | +3.8 | 580.0 | 565.0 | 10,637 | 604 |
| May | 584.6 | +3.8 | 583.5 | 573.0 | 4,547 | 69 |
| Total | | | | | 121,942 | 16,592 |

### ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 18.32 | -0.07 | 18.43 | 18.28 | 89,552 | 54,361 |
| Dec | 18.42 | -0.05 | 18.51 | 18.31 | 75,434 | 23,508 |
| Jan | 18.43 | -0.03 | 18.52 | 18.36 | 45,385 | 12,200 |
| Feb | 18.43 | -0.03 | 18.50 | 18.42 | 23,966 | 3,878 |
| Mar | 18.49 | -0.02 | 18.54 | 18.43 | 22,364 | 3,781 |
| Apr | 18.50 | +0.02 | 15.50 | 18.45 | 14,848 | 1,563 |
| Total | | | | | 412,467 | 118,798 |

■ CRUDE OIL IPE ($/barrel)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 17.07 | -0.08 | 17.18 | 16.98 | 64,107 | 22,255 |
| Dec | 17.10 | -0.07 | 17.19 | 17.04 | 47,635 | 10,528 |
| Jan | 17.12 | -0.06 | 17.20 | 17.05 | 15,925 | 1,890 |
| Feb | 17.11 | -0.04 | 17.14 | 17.05 | 7,590 | 431 |
| Mar | 17.04 | -0.04 | 17.10 | 17.00 | 6,477 | 553 |
| Apr | 17.02 | -0.07 | 17.08 | 17.01 | 1,810 | 151 |
| Total | | | | | 152,841 | 36,454 |

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 50.65 | -0.29 | 51.40 | 50.55 | 1,602 | 11,845 |
| Dec | 51.55 | -0.23 | 52.35 | 51.50 | 40,002 | 20,686 |
| Jan | 52.80 | -0.25 | 53.50 | 52.80 | 43,626 | 7,505 |
| Feb | 53.45 | -0.25 | 53.65 | 53.20 | 31,864 | 3,948 |
| Mar | 53.60 | -0.20 | 53.45 | 53.00 | 18,242 | 654 |
| Apr | 52.35 | -0.15 | 52.35 | 52.35 | 12,463 | 816 |
| Total | | | | | 177,182 | 49,641 |

■ GAS OIL IPE ($/tonne)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 154.50 | -0.50 | 156.75 | 154.50 | 27,155 | 6,573 |
| Nov | 157.25 | -0.25 | 158.25 | 157.00 | 21,534 | 4,564 |
| Dec | 158.50 | -0.25 | 161.50 | 159.25 | 22,248 | 3,095 |
| Jan | 161.50 | -0.25 | 163.50 | 161.25 | 15,395 | 412 |
| Feb | 162.00 | -0.75 | 164.25 | 162.00 | 5,657 | 123 |
| Mar | 162.00 | -0.25 | 163.75 | 162.00 | 3,564 | 183 |
| Total | | | | | 105,347 | 14,698 |

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 1.680 | -0.023 | 1.685 | 1.640 | 33,255 | 8,778 |
| Dec | 1.880 | -0.018 | 1.885 | 1.845 | 29,113 | 3,332 |
| Jan | 2.055 | -0.014 | 2.055 | 2.020 | 17,084 | 1,519 |
| Feb | 1.990 | -0.012 | 1.995 | 1.980 | 14,563 | 1,321 |
| Mar | 1.945 | -0.012 | 1.945 | 1.940 | 11,335 | 317 |
| Apr | 1.910 | -0.007 | 1.910 | 1.900 | 6,779 | 134 |
| Total | | | | | 151,556 | 18,458 |

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 46.95 | -0.24 | 47.25 | 46.70 | 1,750 | 6,199 |
| Dec | 55.55 | -0.17 | 55.25 | 54.30 | 29,673 | 5,087 |
| Jan | 54.70 | -0.05 | 54.90 | 54.60 | 13,963 | 3,271 |
| Feb | 55.00 | -0.05 | 55.10 | 54.80 | 8,749 | 1,139 |
| Mar | 56.70 | - | - | - | 4,124 | 907 |
| Apr | 59.60 | -0.10 | 59.50 | 59.50 | 1,495 | 392 |
| Total | | | | | 58,541 | 29,895 |

### GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 104.55 | -0.35 | 105.00 | 104.35 | 2,285 | 158 |
| Jan | 106.70 | -0.30 | 107.00 | 106.50 | 1,890 | 285 |
| Mar | 108.80 | -0.25 | 109.05 | 108.80 | 1,311 | 65 |
| May | 111.10 | -0.25 | 111.50 | 111.00 | 1,390 | 49 |
| Jul | 113.25 | - | - | - | 253 | - |
| Nov | 97.75 | - | - | - | - | 5 |
| Total | | | | | 7,129 | 542 |

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Dec | 408/4 | +5/0 | 410/6 | 402/0 | 47,649 | 18,884 |
| Mar | 417/4 | +6/4 | 419/0 | 409/4 | 19,007 | 5,370 |
| May | 395/4 | +2/0 | 398/4 | 392/6 | 2,882 | 1,322 |
| Jul | 358/6 | -1/2 | 361/4 | 357/0 | 5,408 | 1,455 |
| Sep | 364/0 | +1/0 | 364/0 | 363/0 | 124 | 9 |
| Dec | 371/4 | +3/4 | 371/4 | 371/0 | 81 | 3 |
| Total | | | | | 75,153 | 27,043 |

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Dec | 217/4 | +1/6 | 219/0 | 215/0 | 134,861 | 19,694 |
| Mar | 227/0 | +1/6 | 228/6 | 224/6 | 48,271 | 2,797 |
| May | 234/6 | +1/6 | 236/4 | 232/4 | 18,886 | 1,239 |
| Jul | 240/0 | +2/2 | 241/2 | 237/4 | 19,263 | 1,587 |
| Sep | 244/0 | +2/4 | 245/0 | 241/4 | 1,338 | 189 |
| Dec | 248/4 | +2/6 | 249/4 | 245/4 | 7,414 | - |
| Total | | | | | 230,308 | 28,016 |

■ BARLEY LCE (£ per tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 103.45 | +0.10 | 103.50 | 103.00 | 461 | 24 |
| Jan | 105.75 | +0.10 | 105.90 | 105.25 | 410 | 53 |
| Mar | 107.75 | - | - | - | 125 | - |
| May | 109.65 | - | - | - | 46 | - |
| Sep | 94.00 | - | - | - | 2 | - |
| Nov | 95.60 | - | - | - | - | - |
| Total | | | | | 1,042 | 77 |

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 538/2 | +2/2 | 541/4 | 535/0 | 77,061 | 32,462 |
| Jan | 548/6 | +2/4 | 551/4 | 546/0 | 21,895 | 6,103 |
| Mar | 558/4 | +2/2 | 561/6 | 555/0 | 13,196 | 4,296 |
| May | 567/4 | +3/0 | 570/2 | 563/4 | 6,778 | 1,647 |
| Jul | 574/0 | +3/2 | 576/0 | 569/4 | 13,063 | 2,376 |
| Aug | 578/0 | +3/4 | 578/4 | 573/0 | 358 | 94 |
| Total | | | | | 137,304 | 48,394 |

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 24.71 | -0.37 | 25.05 | 24.56 | 11,867 | 3,159 |
| Dec | 23.84 | -0.22 | 24.08 | 23.72 | 39,425 | 11,499 |
| Jan | 23.63 | -0.20 | 23.80 | 23.55 | 8,675 | 1,274 |
| Mar | 23.41 | -0.13 | 23.55 | 23.35 | 9,468 | 2,118 |
| May | 23.24 | -0.09 | 23.35 | 23.20 | 6,348 | 1,720 |
| Jul | 23.10 | -0.04 | 23.20 | 23.02 | 4,753 | 1,565 |
| Total | | | | | 83,839 | 21,979 |

■ SOYABEAN MEAL CBT (100 tons; $/ton)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 162.0 | +0.4 | 163.1 | 161.4 | 6,415 | 4,709 |
| Dec | 163.1 | +1.2 | 164.4 | 162.1 | 46,066 | 10,350 |
| Jan | 164.7 | +1.5 | 165.8 | 163.4 | 13,671 | 4,308 |
| Mar | 167.8 | +1.2 | 169.1 | 166.7 | 12,390 | 2,174 |
| May | 170.4 | +1.0 | 171.9 | 169.4 | 6,825 | 1,413 |
| Jul | 174.9 | +2.5 | 175.0 | 172.5 | 4,932 | 957 |
| Total | | | | | 91,938 | 23,998 |

■ POTATOES LCE (£/tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 150.0 | - | - | - | - | - |
| Mar | 105.0 | - | - | - | - | - |
| Apr | 226.3 | -3.2 | 232.0 | 226.0 | 1,157 | 129 |
| May | 237.5 | -2.5 | - | - | - | - |
| Jun | 107.5 | - | - | - | - | - |
| Total | | | | | 1,157 | 129 |

■ FREIGHT (BIFFEX) LCE ($10/index point)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 1731 | +6 | 1720 | 1720 | 648 | 5 |
| Nov | 1706 | +8 | 1710 | 1710 | 347 | 14 |
| Dec | 1678 | - | - | - | - | - |
| Jan | 1645 | - | 1650 | 1645 | 868 | 30 |
| Apr | 1639 | +14 | 1630 | 1630 | 485 | 8 |
| Jul | 1450 | +25 | 1450 | 1450 | 107 | 5 |
| Total | | | | | 2,485 | 67 |

| | Close | Prev |
|---|---|---|
| BFI | 1669 | 1656 |

**Tea**

There was a good general demand, reports the Tea Brokers' Association. Good liquoring Assams were again well supported at fully firm rates but plainer mediums tended easier. Bright east Africans were strong, opening firm to dearer although prices eased by the close. Colouty mediums and central Africans were fully firm but plainer sorts lost some ground. Offshore: Fair demand at firm rates. Quotations: best available 210p/kg, good 145p/kg, good medium 130p/kg, medium 117p/kg, low medium 88p/kg. The highest price realised this week was 215p/kg for an Assam pf.

### SOFTS

■ COCOA LCE (£/tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Dec | 972 | -14 | 978 | 968 | 27,319 | 1,043 |
| Mar | 1008 | -12 | 1011 | 1002 | 37,255 | 916 |
| May | 1018 | -13 | 1026 | 1015 | 13,098 | 92 |
| Jul | 1032 | -11 | 1034 | 1029 | 5,889 | 45 |
| Sep | 1043 | -11 | 1045 | 1042 | 9,612 | 86 |
| Dec | 1059 | -12 | - | - | 8,089 | - |
| Total | | | | | 105,398 | 2,182 |

■ COCOA CSCE (10 tonnes; $/tonnes)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Dec | 1302 | -18 | 1326 | 1300 | 39,061 | 5,418 |
| Mar | 1356 | -17 | 1380 | 1355 | 16,705 | 1,577 |
| May | 1386 | -17 | 1405 | 1385 | 6,359 | 276 |
| Jul | 1419 | -12 | 1420 | 1415 | 2,880 | - |
| Sep | 1446 | -12 | - | - | 1,304 | - |
| Dec | 1468 | -12 | 1470 | 1470 | 4,963 | 4 |
| Total | | | | | 74,789 | 7,273 |

■ COCOA (ICCO) (SDR's/tonne)

| Sept. 30 | Price | Prev. day |
|---|---|---|
| Daily | 1012.81 | 1010.60 |

■ COFFEE LCE ($/tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 3851 | -24 | 3940 | 3850 | 10,781 | 1,157 |
| Jan | 3828 | -27 | 3914 | 3825 | 15,542 | 1,165 |
| Mar | 3748 | -18 | 3820 | 3745 | 7,556 | 255 |
| May | 3710 | -13 | 3750 | 3690 | 2,414 | 153 |
| Jul | 3688 | -2 | 3695 | 3685 | 1,214 | 88 |
| Sep | 3635 | -15 | - | - | 23 | - |
| Total | | | | | 37,530 | 2,818 |

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Dec | 209.80 | +0.75 | 213.20 | 208.25 | 20,663 | 8,380 |
| Mar | 213.80 | +1.00 | 216.90 | 212.50 | 9,110 | 1,545 |
| May | 215.35 | - | 217.75 | 214.90 | 3,812 | 202 |
| Jul | 216.25 | +0.50 | 219.50 | 217.00 | 1,193 | 86 |
| Sep | 216.50 | +1.00 | 220.00 | 216.50 | 525 | 73 |
| Dec | 217.25 | +0.50 | 218.90 | 218.90 | 750 | 10 |
| Total | | | | | 36,053 | 10,298 |

■ COFFEE (ICO) (US cents/pound)

| Sept. 30 | Price | Prev. day |
|---|---|---|
| Comp. daily | 196.93 | 200.25 |
| 15 day average | 204.00 | 204.23 |

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Jan | 11.82 | - | - | - | - | - |
| Mar | 12.86 | - | - | - | 90 | - |
| May | 12.78 | - | - | - | - | - |
| Total | | | | | 90 | - |

■ WHITE SUGAR LCE ($/tonne)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Dec | 331.30 | +2.00 | 331.30 | 327.60 | 3,695 | 275 |
| Mar | 331.20 | +1.40 | 331.00 | 327.50 | 7,627 | 568 |
| May | 331.00 | +1.30 | 331.00 | 328.20 | 1,437 | 232 |
| Aug | 330.90 | +1.40 | 331.00 | 327.90 | 1,177 | 240 |
| Oct | 313.90 | +1.40 | - | - | 391 | - |
| Dec | 312.80 | +1.40 | - | - | 4 | - |
| Total | | | | | 14,331 | 1,316 |

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Mar | 12.52 | +0.12 | 12.55 | 12.32 | 100,987 | 1,850 |
| May | 12.54 | +0.13 | 12.58 | 12.35 | 16,734 | 12,340 |
| Jul | 12.42 | +0.14 | 12.45 | 12.25 | 11,077 | 1,724 |
| Oct | 12.13 | +0.21 | 12.12 | 11.96 | 9,049 | 1,402 |
| Mar | 11.73 | +0.10 | - | - | 1,303 | 1,327 |
| May | 11.73 | +0.10 | - | - | 9 | 229 |
| Total | | | | | 139,610 | 18,872 |

■ COTTON NYCE (50,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 66.40 | -1.00 | 68.00 | 66.50 | 232 | 112 |
| Dec | 66.94 | -0.69 | 67.45 | 66.90 | 27,461 | 3,466 |
| Mar | 68.72 | -0.70 | 69.10 | 68.70 | 10,843 | 681 |
| May | 69.97 | -0.48 | 70.28 | 69.98 | 5,935 | 96 |
| Jul | 70.93 | -0.47 | 71.20 | 70.90 | 3,915 | 147 |
| Oct | 68.80 | -0.50 | - | - | 502 | 39 |
| Total | | | | | 50,681 | 4,711 |

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Nov | 94.35 | -0.15 | 96.30 | 93.50 | 9,938 | 1,879 |
| Jan | 97.75 | - | 99.65 | 96.75 | 6,205 | 1,303 |
| Mar | 101.00 | +0.60 | 103.00 | 100.00 | 4,744 | 387 |
| May | 104.50 | +0.50 | 105.90 | 103.30 | 1,087 | 136 |
| Jul | 107.70 | +0.50 | 108.00 | 108.00 | 618 | 21 |
| Sep | 110.25 | +0.50 | - | - | 198 | 30 |
| Total | | | | | 23,271 | 3,736 |

**VOLUME DATA**

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

### INDICES

■ REUTERS (Base: 18/9/31=100)

| Oct 3 | Sep 30 | month ago | year ago |
|---|---|---|---|
| 2077.4 | 2090.7 | 2088.4 | 1578.1 |

■ CRB Futures (Base: 1967=100)

| Sep 30 | Sep 29 | month ago | year ago |
|---|---|---|---|
| 229.85 | 230.67 | 232.48 | 217.46 |

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 68.525 | +0.025 | 68.900 | 68.075 | 19,168 | 8,344 |
| Dec | 68.900 | +0.400 | 69.150 | 68.475 | 22,199 | 6,147 |
| Feb | 67.975 | +0.275 | 68.225 | 67.650 | 14,802 | 1,828 |
| Apr | 68.825 | +0.175 | 68.950 | 68.575 | 9,704 | 745 |
| Jun | 65.650 | - | 66.950 | 65.600 | 2,285 | 203 |
| Aug | 65.350 | -0.050 | 65.450 | 65.125 | 1,148 | 60 |
| Total | | | | | 68,484 | 17,329 |

■ LIVE HOGS CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Oct | 36.250 | -0.175 | 36.675 | 36.000 | 6,239 | 3,027 |
| Dec | 36.350 | -0.050 | 36.800 | 36.025 | 14,330 | 2,968 |
| Feb | 37.300 | +0.250 | 37.450 | 36.975 | 5,249 | 2,010 |
| Apr | 37.200 | -0.025 | 37.450 | 37.000 | 3,093 | 729 |
| Jun | 42.700 | - | 42.700 | 42.250 | 1,432 | 283 |
| Aug | 41.850 | - | 41.850 | 41.700 | 178 | 47 |
| Total | | | | | 30,986 | 9,117 |

■ PORK BELLIES CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Open int | Vol |
|---|---|---|---|---|---|---|
| Feb | 38.825 | +0.075 | 39.500 | 38.550 | 7,604 | 1,694 |
| Mar | 38.900 | -0.050 | 39.500 | 38.700 | 696 | 166 |
| May | 39.900 | -0.125 | 40.700 | 39.850 | 227 | 40 |
| Jul | 40.900 | -0.050 | 41.200 | 40.900 | 226 | 43 |
| Aug | 39.650 | - | 39.750 | 39.550 | 46 | 1 |
| Total | | | | | 8,800 | 1,947 |

### LONDON TRADED OPTIONS

| Strike price $ tonne | Calls | | Puts | |
|---|---|---|---|---|
| ■ ALUMINIUM (99.7%) LME | Nov | Feb | Nov | Feb |
| 1600 | 45 | 89 | 26 | 57 |
| 1625 | 32 | 76 | 40 | 68 |
| 1650 | 22 | 65 | 56 | 82 |
| ■ COPPER (Grade A) LME | Nov | Feb | Nov | Feb |
| 2500 | 45 | 92 | 80 | 107 |
| 2550 | 27 | 71 | 81 | 138 |
| 2600 | 15 | 55 | 129 | 168 |
| ■ COFFEE LCE | Nov | Jan | Nov | Jan |
| 3600 | 274 | 374 | 23 | 146 |
| 3650 | 234 | 344 | 33 | 166 |
| 3700 | 198 | 316 | 47 | 188 |
| ■ COCOA LCE | Dec | Mar | Dec | Mar |
| 975 | 36 | 86 | 39 | 55 |
| 1000 | 26 | 73 | 54 | 67 |
| 1050 | 12 | 53 | 87 | 97 |
| ■ BRENT CRUDE IPE | Nov | Dec | Nov | Dec |
| 1650 | 68 | 100 | 12 | 34 |
| 1700 | 34 | 66 | 31 | 61 |
| 1750 | 14 | 44 | 62 | 86 |

### LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Nov)

| | | +or- |
|---|---|---|
| Dubai | $15.80-5.95t | +0.10 |
| Brent Blend (dated) | $16.83-6.86 | +0.09 |
| Brent Blend (Nov) | $17.06-7.09t | +0.12 |
| W.T.I. (1pm est) | $18.29-8.30t | +0.13 |

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

| | | |
|---|---|---|
| Premium Gasoline | $171-174 | -1.0 |
| Gas Oil | $157-158 | |
| Heavy Fuel Oil | $77-80 | |
| Naphtha | $164-165 | |
| Jet fuel | $180-183 | +3.0 |
| Diesel | $160-161 | |

Petroleum Argus. Tel. London (071) 359 8792

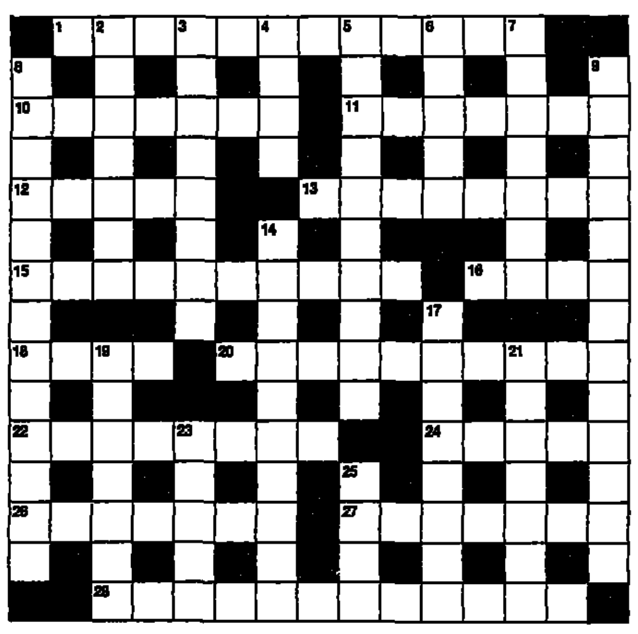
■ OTHER

| | | |
|---|---|---|
| Gold (per troy oz)♣ | $394.90 | +1.10 |
| Silver (per troy oz)♣ | 564.5c | +5.0 |
| Platinum (per troy oz.) | $415.50 | -3.75 |
| Palladium (per troy oz.) | $151.50 | -0.50 |
| Copper (US prod.) | 119.0c | -5.0 |
| Lead (US prod.) | 38.75c | -0.50 |
| Tin (Kuala Lumpur) | 13.53c | +0.12 |
| Tin (New York) | 250.5c | |
| Cattle (live weight)† | 116.20p | +0.03* |
| Sheep (live weight)†♠ | 70.85p | -4.56* |
| Pigs (live weight) | 70.85p | -4.56* |
| Lon. day sugar (raw) | $307.20 | -6.40 |
| Lon. day sugar (wte) | $336.20 | -2.30 |
| Tate & Lyle export | £307.00 | -4.00 |
| Barley (Eng. feed) | Unq. | |
| Maize (US No3 Yellow) | $136.0 | |
| Wheat (US Dark North) | $180.0 | |
| Rubber (Nov)♥ | 93.00p | +0.50 |
| Rubber (Dec)♥ | 92.50p | +0.50 |
| Rubber (KL RSS No1 Jul) | 348.0m | +2.50 |
| Coconut Oil (Phil)§ | $635.0u | |
| Palm Oil (Malay.)§ | $615.0t | |
| Copra (Phil)§ | $413.0u | |
| Soyabeans (US) | £154.0v | |
| Cotton Outlook'A' index | 73.70c | -0.10 |
| Wooltops (64s Super) | 453p | |

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y July/Sep. z Aug. v Nov/Dec. u Oct/Nov. t Nov. x Aug/Oct. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week. © Prices are for previous day.

## CROSSWORD

No.8,575 Set by QUARK



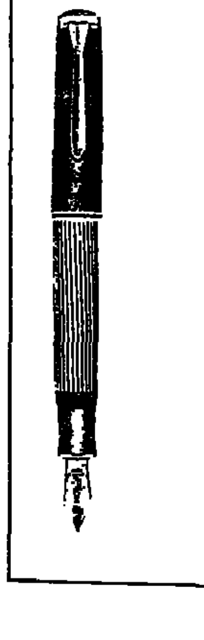

**ACROSS**

1 From which one knows the place to go in (7,5)
10 Number to play carelessly. It's a favourite remedy (7)
11 Omission of vowel, say, in 10 lines misprinted (7)
12 Boredom must be included among the unseen nuisances (5)
13 Dance company led by priest (8)
15 Stockman? (10)
16 East End, perhaps, a place of great happiness (4)
18 Water-plant in usual garden (4)
20 The copper's fly (10)
22 Unpractical people possibly made errors without operational research (8)
24 Police area of many branches, we hear (5)
26 Recollect names, ie for plant (7)
27 Be a survivor as No. 11 in 1 across could be (4,3)
28 In a lesser way (12)

**DOWN**

2 Non-appearance of sailor and nurse at church (7)
3 End of school period in America (8)
4 Handle a famous person (4)
5 Was higher than but failed to notice (10)
6 Belief in a poor side is misplaced (5)
7 Eg diner is drunk, "influenced" (7)
8 Intelligence below current ranking (13)
9 Girl sticks firmly around middle of bound statements (13)
14 Well-suited? (6-4)
17 A northern comic's shuffle (soft-shoe) (8)
19 Shone faintly and led game disastrously (7)
21 The land surface makes excellent fuel (7)
23 Greek letter's one about a series of pleasant sounds (5)
25 A positive sign (4)

Solution to Saturday's prize puzzle on Saturday October 15.
Solution to yesterday's prize puzzle on Monday October 17.



Of broking and jobbing the Pelikan's fond.
See how sweetly he puts your word onto bond.
Pelikan
JOTTER PAD

# LONDON STOCK EXCHANGE

MARKET REPORT

## FT-SE falls sharply after poor economic news

By Steve Thompson

A combination of disturbing economic news from both sides of the Atlantic, plus a worrying profits warning from S.G. Warburg, the UK merchant bank, cast a shadow across the London stock market.

The FT-SE 100 Index once more plunged through the 3,000 level, closing a net 42.8 lower at 2,983.5. The retreat by the market front-line stocks was matched by the second-tier issues, where the FT-SE Mid 250 Index dropped 45.2 to 3,449.6.

*Adding to the gloom surrounding* the market was news emerging from the Labour party conference in Blackpool that a Labour government would introduce a windfall profits tax on the privatised utilities such as electricity and water companies whose profits have surged since being taken out of public ownership.

The pattern of trading in the market was set at the outset when dealers chopped their opening prices after S.G. Warburg, regarded as the most successful integrated securities house in the City since Big Bang, issued a warning that interim profits would be severely affected by the extreme turbulence in international markets in recent months. This news, which followed warnings last week of low turnover from Sharelink, the execution-only stockbroker, saw marketmakers carve around 16 per cent from the Warburg share price and triggered a broad mark-down of prices across the market, especially in the financial areas.

Shortly after the market had absorbed the Warburg news, it had to cope with worrying money supply figures. M0, the narrow money supply indicator, expanded by 1 per cent during September, well ahead of the expected 0.4 per cent increase and giving a year-on-year rise of 7.1 per cent. This brought additional pressure to bear on a gilts market which opened in good shape but was quickly worn down by a poor performance by German bunds which, in turn, reflected growing unease after the latest opinion poll ratings for the October 16 federal election.

With gilts slipping away, the gloom in the stock market deepened and the FT-SE 100, which opened only two points easier, quickly fell to show a drop in excess of 32 points by midday.

Debt markets fared worse with the announcement of a higher than expected National Purchasing Managers' index, which served to increase worries in the US of further inflationary pressures. Dealers took the view that evidence this Friday of increasing economic activity in the US, via a steeper than expected fall in unemployment, would push the US Federal Reserve into another increase in US interest rates. The general consensus was that a fall of more than 250,000 in US non-farm payrolls on Friday would produce steep falls in world markets unless the Fed moved to lift US rates.

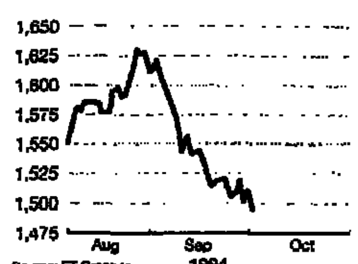
At its worst, the FT-SE 100 Index was down 43.9, affected by an early slide in the Dow Jones Industrial Average, before its subsequent close. But there remained very little confidence in a UK market which one strategists said is being "tortured by fears of inflation across the globe".

Marketmakers, bruised by the recent excessive volatility in markets, remained bearish in the short term. "We are reaching a climax of bearishness in this market but you would have to be very brave to call the bottom," said one weary dealer. He expected support for the FT-SE 100 at the 2,950 level.

The Warburg warning produced hefty losses across the merchant banks and clearing banks with big trading teams, while shares in Smith New Court, the UK's premier marketmaking firm, were badly affected.

Reports of a £5bn flotation of BSkyB produced strong support for Pearson and Granada, two of the big shareholders in the satellite television group.

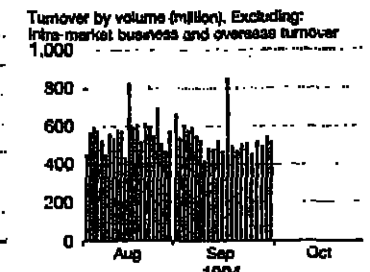
### FT-SE-A All-Share Index



Source: FT Graphite

### Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover




### ■ Key Indicators

**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FT-SE 100 | 2983.5 | -42.8 | FT Ordinary Index | 2320.3 | -29.8 |
| FT-SE Mid 250 | 3449.6 | -45.2 | FT-SE-A Non Fins p/e | 18.35 | (18.52) |
| FT-SE-A 350 | 1500.2 | -21.2 | FT-SE 100 Fut Dec | 2993.0 | -49.0 |
| FT-SE-A All-Share | 1490.83 | -20.14 | 10 yr Gilt yield | 8.89 | (8.89) |
| FT-SE-A All-Share yield | 4.03 | (3.98) | Long gilt/equity yld ratio: | 2.22 | (2.23) |

**Best performing sectors**

1 Oil, Integrated ........ -0.1
2 Other Services & Bus ........ -0.3
3 Mineral Extraction ........ -0.3
4 *Media* ........ -0.4
5 Leisure & Hotels ........ -0.5

**Worst performing sectors**

1 Merchant Banks ........ -7.1
2 Electricity ........ -4.0
3 Water ........ -3.8
4 *Insurance* ........ -3.3
5 Tobacco ........ -2.9

## Banks hit by profits warning

A deeply disturbing profits warning from S.G. Warburg, one of the UK's leading integrated securities houses, pushed panic buttons among investors and analysts.

The shares responded by plunging more than 15 per cent to hit their lowest level since the beginning of last year as analysts cut forecasts.

By the time the smoke had cleared the stock was down 101p at 569p with 4.3m shares traded and beginning to look relatively cheap, according to some banking specialists. Nevertheless, with the market capitalisation already putting the bank at the bottom of the FT-SE 100, its future in the blue chip index looked precarious.

Warburg announced that profits expectations of around £140m for the six months to September would be disappointed and the figure was more likely to be between £55m and £65m.

There was much speculation as to what lay behind the downgrade. Warburg cited difficulties in equity and fixed income trading, but some dealers said the big falls in global bond and stock markets had occurred before the March year-end. It was suggested that the house might have lost heavily in its risk management business, particularly derivatives.

Downgrades followed swiftly. James Capel moved to the bottom of the range, reducing its full-year estimate by £100m to £140m. Credit Lyonnais Laing took a more optimistic stance, lowering its forecast by £72m to £158m. However, the most shocked appeared to be NatWest Securities, which had seen Warburg as the best of a bad bunch. The house cut by £145m to £155m, and moved its recommendation from "add" to "hold".

Laing, formerly a strong bear of the stock, took the opposite view and upgraded to a more neutral stance. Analyst Mr Martin Hughes argued that with staff salaries averaging £105,000, the high cost base compared to rival houses would hit profits when revenues were down, but the bank's net worth was now offering support.

The Warburg statement turned the spotlight on to other investment banks as well as clearing banks with investment arms. Smith New Court, which has a very strong marketmaking presence, dropped 40 to 334p. Schroders, the merchant bank, shed 43 to 1335p, with concern focusing on its Wertheim arm. Clearers National Westminster and Barclays fell 8½ to 479p and 11½ to 559p respectively, although analysts said their strong presence in more stable foreign exchange markets would offer protection.

### Pearson optimism

Media conglomerate Pearson stood out as the best performer in the FT-SE 100 as investors responded to press speculation that BSkyB, the satellite group in which Pearson has around 17 per cent, would be the subject of a £5bn flotation.

The story was published in the Sunday Times, which is owned by Mr Rupert Murdoch who also owns 50 per cent of BSkyB. It encouraged S.G. Warburg to upgrade its calculation for the contribution BSkyB makes to Pearson's share price by 32p to 105p and recommend the Financial Times owner at its morning meeting. The house forecast for Pearson shares is now 712p and the stock closed 17 stronger at 599p.

Leisure and rental group Granada, holder of a 13.5 per cent stake in BSkyB, ended 2 firmer at 510p, as analysts focused on the prospect of a windfall of between £450m and £500m to the company, should a stake sale go ahead.

News that food retailer J. Sainsbury had bought 50 per cent of the voting stock of US supermarket chain Giant Food for $325m helped the shares resist the market slide.

The shares have been under a cloud in recent sessions on continuing fears of a price war among food retailers, but the stock was back in favour yesterday. The shares touched 409p before renewed fears of a price war, particularly in the second half of the session, saw the stock surrender the earlier gain to end 1½ up at 402p.

Mr Bill Myers at Yamaichi said: "The market was half expecting an acquisition. This one is in the right place geographically and is a quality outfit."

The attention of the rest of the sector focused on the intensifying supermarket price battle as Argyll Group's Safeway supermarket chain launched a £7m advertising campaign and Asda Group announced a price freeze on 7,000 grocery and non-food items until at least January 1995.

Argyll slipped 4½ to 270p, while the latter relinquished 3¼ to 63½p in trade of 4.7m.

Comments by shadow chancellor Mr Gordon Brown that a Labour government would impose a "windfall tax" on the profits of privatised utilities sent a chill through the shares of the regional electricity companies. The worst hit included Midlands Electricity, down 37 at 701p, Eastern Electricity, which tumbled 35 to 707p, and London Electricity, which fell 34 to 651p.

Vodafone failed to climb above the weak market sentiment in spite of a very strong showing from new connections in its second quarter. The shares dipped 3½ to 194p in 5.5m trading volume.

The group took in 277,000 gross subscribers in the quarter, up from 98,000 a year ago, with digital connections accounting for one-third of new connections in September.

Medeva, the pharmaceuticals group, rose 5 to 153p as the market responded to a positive presentation by the company in the US and a recommendation from Panmure Gordon.

Both British Aerospace and nuclear submarine maker VSEL moved sharply lower as they awaited official confirmation of widely anticipated takeover talks. The former fell 10½ to 442p and the latter weakened 32 to 1178p. VSEL is now 72p short of the price that most securities houses have been putting on any potential offer from BAe.

Housebuilders lost ground following the Nationwide Building Society's gloomy view of house prices in September. Barratt shed 4 to 138p and Wimpey slipped a similar amount to 138p.

Among building materials, BPB held steady at 302p, helped by a buy recommendation from BZW.

Plant hire shares were in demand, with Ashtead bouncing 7 to 437p on the back of a confident statement.

A profits warning from retailer Shoprite left the shares trailing 4 at 28p.

**MARKET REPORTERS:**
Peter John,
Joel Kibazo,
Jeffrey Brown.

■ Other statistics, Page 26

### NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (16).
BREWERIES (1) Wetherspoon (JD), DISTRIBUTORS (2) Faber Prest, Wilshaw, ELECTRNC & ELECT EQUIP (2) Bulgin A, Nokia Prf., EXTRACTIVE INDS (1) Placer Pac., INVESTMENT TRUSTS (1) LEISURE & HOTELS (2) *Northern, Do Deb. 96/01*, OIL EXPLORATION & PROD (1) Alliance Res., RETAILERS, GENERAL (1) Oliver, TEXTILES & APPAREL (3) Bullers, Ferminster, Wensum, TRANSPORT (1) GRT, AMERICANS (1) Allegheny & Wstn.
NEW LOWS (198).
BANKS (1) BREWERIES (2) Fuller STA, Scot. & Newcastle, BUILDING & CNSTRN (9) Barratt Dev., Bellway, Bryant, EBC, McAlpine (A), Persimmon, Taylor Woodrow, Tilbury Douglas, Wimpey (G), BLDG MATLS & MCHTS (5) Cape, Heywood Wms. Prf., Culligott, Ruberoid, SWP, CHEMICALS (5) Brit. Vita, Courtaulds, Laporte, Manders, Perstorp, DISTRIBUTORS (11) DIVERSIFIED INDLS (6) BTR, Do Wrts., Do Wrts. 1994/95, Do Wrts. 1997, Hanson Wrts., ELECTRICITY (2) Scot. Hydro., Scot. Power., ELECTRNC & ELECT EQUIP (9) ASEA, BICC, Do 10%pc Bds. 2020, Berkeley, Burlteac, [illegible] ELECTRICITY (2) [illegible] EXTRACTIVE INDS (1) Minorco, FOOD MANUF (7) [illegible] HEALTH CARE (4) AAH, [illegible] HOUSEHOLD GOODS (3) [illegible] INSURANCE (12) [illegible] INVESTMENT TRUSTS (23) [illegible] LEISURE & HOTELS (6) [illegible] LIFE ASSURANCE (4) [illegible] MEDIA (3) [illegible] MERCHANT BANKS (6) [illegible] OIL EXPLORATION & PROD (4) [illegible] PRTNG, PAPER & PACKG (5) [illegible] PROPERTY (21) RETAILERS, FOOD (1) [illegible] RETAILERS, GENERAL (10) [illegible] SUPPORT SERVS (9) [illegible] TELECOMMUNICATIONS (2) [illegible] TEXTILES & APPAREL (6) [illegible] TRANSPORT (2) [illegible] AMERICANS (2) [illegible]

## EQUITY FUTURES AND OPTIONS TRADING

Stock index futures fell steeply, leading the cash market lower for most of the day with *premiums to cash equities* narrowing at times to little more than two points, *writes Jeffrey Brown*.

Turnover was heavy with *volume at the official 4.10pm* close running to 15,099 contracts, against 14,599 on Friday. Unlike the cash market, futures traders had an active day.

The FT-SE December contract closed 49 points lower at 2,993. This was at least above the day's low of 2,987 which was touched in *the final hour of trading*.

At the close the premium to the cash market was 9.5 points with the fair value premium extending to around 16 points.

*Selling pressure was mostly* heavy throughout the session, forcing the December contract down to a level at times close to parity with the cash market.

Traders said a number of *hard-nosed bear runs had* been made with the locals - independent traders - leading the charge. Institutional business remained non-existent.

Traded option turnover also bounded ahead, rising from 22,036 lots on Friday to 35,586 lots. FT-SE and Euro FT-SE volume accounted for 22,822 lots.

Scottish Power was the most actively traded individual stock option at 1,356 lots, with HSBC also active.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 3037.0 | 2993.0 | -49.0 | 3041.0 | 2986.0 | 16703 | 53468 |
| Mar | 3038.0 | 3017.0 | -49.0 | 3038.0 | 3029.0 | 4 | 2165 |

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 3500.0 | 3468.0 | -47.0 | 3500.0 | 3475.0 | 240 | 3849 |

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | - | 3468.0 | - | - | - | - | 0 |

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2984) £10 per full index point

| | 2800 C | 2800 P | 2850 C | 2850 P | 2900 C | 2900 P | 2950 C | 2950 P | 3000 C | 3000 P | 3050 C | 3050 P | 3100 C | 3100 P | 3150 C | 3150 P |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Oct | 187 | 8½ | 142½ | 12 | 102½ | 21 | 68 | 37 | 41 | 60 | 22½ | 91½ | 10½ | 131 | 4½ | 175½ |
| Nov | 208½ | 22½ | 167½ | 31 | 132 | 44½ | 100 | 61 | 71½ | 83 | 50½ | 112 | 33 | 145½ | 20½ | 184 |
| Dec | 222 | 33 | 185½ | 46 | 151½ | 61 | 123½ | 82 | 100 | 104½ | 72½ | 133 | 52 | 162 | 37½ | 198 |
| Jan | 250 | 48 | 212½ | 61½ | 178 | 78 | 148 | 96 | 119½ | 117 | 95 | 143 | 73 | 171 | 55 | 205 |
| Jun† | 305½ | 78½ | | | 241½ | 112½ | | | 181½ | 152½ | | | 138 | 207½ | | |

Calls 4,783 Puts 8,384

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

| | 2825 C | 2825 P | 2875 C | 2875 P | 2925 C | 2925 P | 2975 C | 2975 P | 3025 C | 3025 P | 3075 C | 3075 P | 3125 C | 3125 P | 3175 C | 3175 P |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Oct | 168 | 10½ | 122 | 16½ | 83½ | 27½ | 51½ | 45½ | 28½ | 72½ | 13 | 106½ | 6½ | 149½ | 3½ | 196½ |
| Nov | 188 | 24 | 150 | 38 | 116½ | 52 | 87 | 72 | 62 | 97 | 42½ | 126½ | 27 | 161 | 16½ | 200 |
| Dec | 203½ | 37½ | 168½ | 52 | 136 | 69 | 108 | 90 | 82½ | 114 | 61½ | 142½ | 44 | 174½ | 29½ | 209 |
| Mar | 251½ | 65 | | | 186 | 98½ | | | 131½ | 139 | | | 88 | 193 | | |
| Jun† | 294 | 87½ | | | 231½ | 121 | | | 176 | 161½ | | | 128½ | 210 | | |

Calls 3,688 Puts 8,445 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

| | 3450 | 3500 | 3550 | 3600 | 3650 | 3700 | 3750 | 3800 |
|---|---|---|---|---|---|---|---|---|
| Oct | 139 88 | 113 109½ | 91 135½ | | | | | |

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

## TRADING VOLUME

■ Major Stocks Yesterday

Volume 000s, Closing price, Day's change — [table illegible at this resolution: 3i†, ASDA Group†, Abbey National†, Albert Fisher, Allied Domecq†, Anglian Water†, Argos, Argyll Group†, Arjo Wiggins†, Assoc. Brit. Foods, Assoc. Brit. Ports, BAA†, BAT Inds.†, BET†, BICC†, BOC†, BP†, BPB Inds.†, BT†, BTR†, Bank of Scotland†, Barclays†, Bass†, Blue Circle†, Booker, Boots†, Bowater†, Brit. Aerospace†, British Airways†, British Gas†, British Land†, British Steel†, Bunzl, Burmah Castrol†, Burton, Cable & Wire†, Cadbury Schweppes†, Caradon, Carlton Comms.†, Coats Viyella, Comm. Union†, Cookson, Courtaulds†, Dalgety, De La Rue†, Dixons, Eastern Elect.†, East Midland Elec., Electrocomponents, Eng China Clays, Enterprise Oil†, Eurotunnel Units, FKI, Fisons†, Foreign & Col. I.T., Forte†, GKN†, GRE†, GUS†, General Accident†, General Elect.†, Glaxo†, Glynwed, Granada†, Grand Met.†, Guinness†, HSBC (75p shs)†, Hammerson, Hanson†, Harrisons Crosfield, Hays, Hillsdown, ICI†, Inchcape†, Johnson Matthey, Kingfisher†, Kwik Save, Ladbroke†, Land Securities†, Laporte, Lasmo†, Legal & General†, Lloyds Bank†, Lucas Inds.†, MEPC†, Marks & Spencer†, ... Zeneca†]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † indicates an FT-SE 100 index constituent.

## FT - SE Actuaries Share Indices — The UK Series

| | Oct 3 | Day's chge% | Sep 30 | Sep 29 | Sep 28 | Year ago | Div. yield% | Earn. yield% | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | 2983.5 | -1.4 | 3026.3 | 2992.5 | 3038.7 | 3087.7 | 4.24 | 7.29 | 16.20 | 105.74 | 1130.16 |
| FT-SE Mid 250 | 3449.6 | -1.3 | 3494.8 | 3504.0 | 3533.8 | 3439.3 | 3.62 | 5.85 | 20.24 | 103.70 | 1269.12 |
| FT-SE Mid 250 ex Inv Trusts | 3441.9 | -1.4 | 3489.2 | 3501.6 | 3531.2 | 3448.9 | 3.79 | 6.45 | 18.51 | 107.66 | 1269.46 |
| FT-SE-A 350 | 1500.2 | -1.4 | 1521.4 | 1509.8 | 1531.1 | 1532.0 | 4.10 | 6.86 | 16.89 | 51.23 | 1182.25 |
| FT-SE SmallCap | 1802.35 | -0.7 | 1814.20 | 1819.13 | 1828.84 | 1770.85 | 3.28 | 4.84 | 25.98 | 45.68 | 1399.58 |
| FT-SE SmallCap ex Inv Trusts | 1774.07 | -0.6 | 1785.64 | 1791.11 | 1797.87 | 1765.63 | 3.48 | 5.36 | 23.75 | 47.07 | 1381.50 |
| FT-SE-A ALL-SHARE | 1490.83 | -1.3 | 1510.97 | 1500.09 | 1519.78 | 1518.12 | 4.03 | 6.82 | 17.43 | 50.07 | 1174.69 |

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | High/day | Low/day |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | 3024.3 | 3017.0 | 3004.6 | 2995.1 | 2994.2 | 2989.9 | 2994.8 | 2998.2 | 2984.3 | 3025.2 | 2982.4 |
| FT-SE Mid 250 | 3487.7 | 3484.5 | 3476.6 | 3470.4 | 3463.3 | 3457.4 | 3458.9 | 3458.4 | 3450.2 | 3488.2 | 3449.8 |
| FT-SE-A 350 | 1519.9 | 1516.7 | 1511.1 | 1507.2 | 1505.8 | 1503.5 | 1505.3 | 1505.5 | 1500.6 | 1520.3 | 1499.9 |

Time of FT-SE 100 Day's high: 8.40am Day's low: 3.12pm. FT-SE 100 1994 High: 3520.3( 2/2 ) Low: 2876.6 (24/6).

■ FT-SE Actuaries 350 Industry baskets

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | Close | Previous | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bldg & Cnstrcn | 987.3 | 987.7 | 986.6 | 983.5 | 982.6 | 980.6 | 981.0 | 981.1 | 980.9 | 980.9 | 971.7 | -10.8 |
| Pharmaceuticals | 2944.0 | 2938.2 | 2919.5 | 2908.7 | 2901.9 | 2898.4 | 2923.2 | 2927.2 | 2921.5 | 2921.3 | 2949.8 | -28.5 |
| Water | 1848.0 | 1834.7 | 1829.6 | 1828.0 | 1801.4 | 1791.7 | 1793.9 | 1790.5 | 1782.7 | 1781.7 | 1852.3 | -70.6 |
| Banks | 2784.7 | 2773.0 | 2761.6 | 2762.0 | 2754.8 | 2754.1 | 2758.4 | 2762.6 | 2749.6 | 2752.8 | 2793.1 | -40.2 |

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry Baskets are calculated by The International Stock Exchange of the United Kingdom and Republic of Ireland and The FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1994. © The Financial Times Limited 1994. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. RECLASSIFICATION: [illegible]

# LONDON EQUITIES

## LIFFE EQUITY OPTIONS

[Options table (Calls Oct/Jan/Apr, Puts Oct/Jan/Apr; Nov/Feb/May; Dec/Mar/Jun series) for Allied Domecq, Argyll, ASDA, Boots, Brit Airways, BP, British Steel, Bass, Cable & Wire, Courtaulds, Comm Union, ICI, Kingfisher, Land Secur, Marks & S, Natwest, Sainsbury, Shell Trans., Storehouse, Trafalgar, Unilever, Zeneca, Grand Met, Ladbroke, Lucas Inds, P & O, Pilkington, Prudential, RTZ, Redland, Royal Insce, Tesco, Vodafone, Williams, BAA, Thames Wtr, Abbey Natl, Amstrad, Barclays, Blue Circle, British Aero, BAT Inds, BTR, Brit Telecom, Cadbury Sch, Eastern Elec, Guinness, GEC, Hanson, Lasmo, Lonrho, Nat Power, Scot Power, Sears, Forte, Tarmac, Thorn EMI, Tomkins, TSB, Wellcome, Glaxo, Reuters, Rolls-Royce, etc. — figures illegible at this resolution.]

* Underlying security price. Premiums shown are based on closing offer prices. October 3. Total contracts: 30,057 Calls: 18,307 Puts: 11,750

## FT GOLD MINES INDEX

| | Oct 3 | % chg on day | Sep 30 | Sep 29 | Sep 28 | Year ago | Gross div yield % | 52 week High | Low |
|---|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (35) | 2324.26 | -0.4 | 2332.49 | 2336.52 | 1888.03 | 1.86 | 2367.40 | 1673.93 |
| ■ Regional Indices | | | | | | | | | |
| Africa (18) | 3588.82 | -0.3 | 3582.30 | 3623.26 | 2313.67 | 3.83 | 3623.26 | 2295.65 |
| Australasia (8) | 2926.36 | +1.4 | 2998.36 | 2971.15 | 1883.69 | 1.78 | 3013.80 | 1853.69 |
| North America (11) | 1887.53 | -2.8 | 1882.84 | 1876.51 | 1481.37 | 0.72 | 2030.85 | 1458.45 |

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Predecessor Gold Mines Index: Oct 3: 292.0 ; day's change: -1.7 points; Year ago: 182.6 † Partial.
Latest prices unavailable for this edition.

## RISES AND FALLS YESTERDAY

| | Rises | Falls | Same |
|---|---|---|---|
| British Funds | 2 | 44 | 24 |
| Other Fixed Interest | 4 | 0 | 13 |
| Mineral Extraction | 50 | 65 | 81 |
| General Manufacturers | 62 | 258 | 320 |
| Consumer Goods | 23 | 70 | 84 |
| Services | 52 | 194 | 251 |
| Utilities | 0 | 36 | 9 |
| Financials | 30 | 199 | 137 |
| Investment Trusts | 17 | 199 | 252 |
| Others | 31 | 50 | 25 |
| Totals | 289 | 1,112 | 1206 |

Data based on those companies listed on the London Share Service.

## TRADITIONAL OPTIONS

| | | | |
|---|---|---|---|
| First Dealings | September 26 | Expiry | December 29 |
| Last Dealings | October 7 | Settlement | January 13 |

Calls: Alliance Res, Aminex, CRP Leisure, Eclipse Blinds, Kode Intl, NHL Pref. Puts: Aminex, CRP Leisure.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1994 High | 1994 Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| §125 | F.P. | 18.2 | 130 | 118 | Compel | 119 | | WN4.0 | 2.1 | 4.2 | 11.5 |
| - | F.P. | 1.30 | 1½ | 1 | Cont'l Foods Wrts | 1¼ | | - | - | - | - |
| - | F.P. | 26.0 | 68 | 61 | Emerging Mkts C | 65 | -1 | - | - | - | - |
| 63 | F.P. | 12.4 | 68 | 65 | Ennemix | 68 | | RN0.71 | 5.3 | 1.3 | 8.5 |
| 112 | F.P. | 21.4 | 120 | 118 | Independent Parts | 120 | | LN4.0 | 2.1 | 4.2 | 14.5 |
| 180 | F.P. | 17.4 | 195 | 180 | Mackie Intl | 181 | -2 | RN6.0 | 2.2 | 4.1 | 7.4 |
| 80 | F.P. | 24.1 | 85 | 78 | Ryland | 85 | | LN3.5 | 1.7 | 5.1 | 14.0 |
| - | F.P. | 3.74 | 44 | 27 | Sutter Wrts 99/04 | 32 | -1 | - | - | - | - |
| - | F.P. | 114.0 | 379 | 368½ | Templeton E New | 368½ | -2½ | - | - | - | - |
| - | F.P. | 12.1 | 212 | 192 | Do. Wrts. 2004 | 195½ | -5½ | - | - | - | - |
| - | F.P. | 322.4 | 360 | 350 | Wrexham Water | 350 | -10 | - | - | - | - |
| - | F.P. | 33.7 | 330 | 330 | Do. NV | 330 | | - | - | - | - |

## RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renun. date | 1994 High | 1994 Low | Stock | Closing price p | +or- |
|---|---|---|---|---|---|---|---|
| 160 | Nil | 17/10 | 6pm | 2pm | Jermyn Inv. | 2pm | |
| 600 | Nil | 18/10 | 52pm | 27pm | Reckitt & Colman | 29pm | -2 |
| 245 | Nil | 9/11 | 24pm | 12pm | Unichem | 12pm | |

## FINANCIAL TIMES EQUITY INDICES

| | Oct 3 | Sep 30 | Sep 29 | Sep 28 | Sep 27 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| Ordinary Share | 2320.3 | 2350.1 | 2323.8 | 2356.5 | 2340.0 | 2332.5 | 2713.6 | 2240.6 |
| Ord. div. yield | 4.43 | 4.38 | 4.43 | 4.36 | 4.39 | 4.00 | 4.48 | 3.43 |
| Earn. yld. % full | 6.40 | 6.33 | 6.38 | 6.29 | 6.33 | 4.70 | 6.40 | 3.82 |
| P/E ratio net | 17.46 | 17.67 | 17.49 | 17.35 | 17.43 | 27.15 | 33.43 | 16.94 |
| P/E ratio nil | 17.50 | 17.70 | 17.52 | 17.81 | 17.69 | 25.05 | 30.80 | 17.09 |

*For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

**Ordinary Share hourly changes**

| Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.00 | High | Low |
|---|---|---|---|---|---|---|---|---|---|---|
| 2351.0 | 2345.3 | 2334.4 | 2328.6 | 2328.4 | 2326.0 | 2329.2 | 2329.5 | 2321.9 | 2352.8 | 2320.3 |

| | Oct 3 | Sep 30 | Sep 29 | Sep 28 | Sep 27 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 23,301 | 23,904 | 23,236 | 24,463 | 23,734 | 29,295 |
| Equity turnover (£m)† | - | 1123.4 | 1442.6 | 1565.4 | 1375.7 | 1077.5 |
| Equity bargains† | - | 26,768 | 27,001 | 27,672 | 30,207 | 33,333 |
| Shares traded (mil)† | - | 480.4 | 529.4 | 496.6 | 516.3 | 472.4 |

†Excluding intra-market business and overseas turnover.

APPOINTMENTS ADVERTISING

appears in the UK edition every Wednesday & Thursday and in the International edition every Friday For further information please call:

Gareth Jones on +44 71 873 3779
Andrew Skarzynski on +44 71 873 4054

# LONDON SHARE SERVICE

## BANKS

[illegible]

## BREWERIES

[illegible]

## BUILDING & CONSTRUCTION

[illegible]

## BUILDING MATS. & MERCHANTS

[illegible]

## CHEMICALS

[illegible]

## DISTRIBUTORS

[illegible]

## DIVERSIFIED INDUSTRIALS

[illegible]

## ELECTRICITY

[illegible]

## ELECTRONIC & ELECTRICAL EQPT

[illegible]

## ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

## ENGINEERING

[illegible]

## ENGINEERING, VEHICLES

[illegible]

## EXTRACTIVE INDUSTRIES

[illegible]

## FOOD MANUFACTURERS

[illegible]

## GAS DISTRIBUTION

[illegible]

## HEALTH CARE

[illegible]

## HEALTH CARE - Cont.

[illegible]

## HOUSEHOLD GOODS

[illegible]

## INSURANCE

[illegible]

## INVESTMENT TRUSTS

[illegible]

## INVESTMENT TRUSTS - Cont.

[illegible]

# LONDON SHARE SERVICE

## INVESTMENT TRUSTS - Cont.

## OTHER INVESTMENT TRUSTS

## INVESTMENT COMPANIES

## LEISURE & HOTELS

## LEISURE & HOTELS - Cont.

## LIFE ASSURANCE

## MEDIA

## MERCHANT BANKS

## OIL EXPLORATION & PRODUCTION

## OIL EXPLORATION & PRODUCTION - Cont.

## OIL, INTEGRATED

## OTHER FINANCIAL

## OTHER SERVICES & BUSINESSES

## PHARMACEUTICALS

## PRINTING, PAPER & PACKAGING

## PROPERTY

## PROPERTY - Cont.

## RETAILERS, FOOD

## RETAILERS, GENERAL

## RETAILERS, GENERAL - Cont.

## SPIRITS, WINES & CIDERS

## SUPPORT SERVICES

## TELECOMMUNICATIONS

## TEXTILES & APPAREL

## TOBACCO

## TRANSPORT

## TRANSPORT - Cont.

## WATER

## AMERICANS

## CANADIANS

## SOUTH AFRICANS

| | Notes | Price | + or – | 1994 high | 1994 low | Mkt Cap£m | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Anglo Am Ind | | £29¼ | ---- | £30 | £13½ | 1,906 | 2.5 | 21.4 |
| Barlow | Z | £4½ | ---- | £5½ | £3½ | 886.4 | 0.7 | - |
| Gold Flds Prop R | | 118xa | ---- | 128 | 75 | 12.1 | 7.8 | Φ |
| MK Props. | Z | 85 | ---- | 95 | 85 | 3.42 | 14.0 | Φ |
| SASOL | ♥ | 498 | ---- | 500 | 280 | 2,820 | 2.8 | - |
| SA Brews | | £11⅞ | ---- | £16⅞ | £10 | 3,289 | 2.3 | 19.4 |
| Tiger Oats | † | 813 | ---- | 838 | 538 | 921.8 | 2.8 | 12.9 |
| Tongaat-Hulett | h | 602 | ---- | •616½ | 356¼ | 548.7 | 2.1 | 18.8 |

## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xt ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

### FT Free Annual Reports Service

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on ( 071 ) 873 4378 for more details.

## AUTHORISED UNIT TRUSTS

## Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

**INITIAL CHARGE:** Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

**OFFER PRICE:** Also called issue price. The price at which units are bought by investors.

**BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

**CANCELLATION PRICE:** The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

**TIME:** The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point: a short period of time may elapse before prices become available.

**HISTORIC PRICING:** The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

**FORWARD PRICING:** The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

**SCHEME PARTICULARS AND REPORTS:** The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on ( 071 ) 873 4378 for more details.

## OTHER UK UNIT TRUSTS

[illegible]

## INSURANCES

[illegible]

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

## Scottish Provident Group - Contd.

| Pension Funds | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| With-Profits Ord | 216.5 | 227.9 | +0.2 | - |
| Managed Ord | 324.3 | 341.5 | -1.1 | - |
| Blue Chip Ord | 145.0 | 152.8 | +0.4 | - |
| Equity Ord | 337.1 | 354.9 | -1.4 | - |
| International Ord | 357.0 | 375.8 | -2.1 | - |
| Property Ord | 302.2 | 318.2 | | - |
| Fixed Interest Ord | 288.7 | 304.0 | -0.6 | - |
| Index-Linked Ord | 191.6 | 201.7 | +1.1 | - |
| Cash Ord | 261.5 | 275.3 | +0.1 | - |
| Building Society Ord | 188.1 | 208.7 | +0.1 | - |
| American Performance Ord | 193.3 | 203.6 | -1.1 | - |
| Europe Performance Ord | 120.6 | 127.0 | -1.1 | - |
| Far East Performance Ord | 157.3 | 165.7 | -1.3 | - |
| Worldwide Performance Ord | 167.6 | 176.5 | -1.4 | - |

## Swiss Life (UK) PLC

## OFFSHORE INSURANCES

## MANAGEMENT SERVICES

## OFFSHORE AND OVERSEAS

## BERMUDA (SIB RECOGNISED)

## GUERNSEY (SIB RECOGNISED)

## GUERNSEY (REGULATED)(**)

## IRELAND (SIB RECOGNISED)

## IRELAND (REGULATED)(**)

## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## JERSEY (SIB RECOGNISED)

## JERSEY (REGULATED)(**)

## LUXEMBOURG (SIB RECOGNISED)

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

## Bank Von Ernst & Cie AG

## Barclays Diversified Portfolio (z)

## Barclays Inv Funds (Luxembourg)

## Hypo Foreign & Colonial Port Fd Sicav(z)

## INVESCO International Limited (a)

## Jupiter Tyndall Global Fund

## LUXEMBOURG (REGULATED)(**)

## FT MANAGED FUNDS SERVICE: MFS International Funds

## Alliance Capital

## OTHER OFFSHORE FUNDS

## FPM / Swiss Financial Services

## KI Asia Pacific Fund Ltd

## Putnam International Advisers Ltd

## MANAGED FUNDS NOTES

# CURRENCIES AND MONEY

MARKETS REPORT

## Trade deal lifts dollar

The US dollar briefly climbed above the Y100 level in London trading yesterday as the currency initially benefited from the weekend announcement of a partial US-Japan trade deal, *writes Philip Coggan.*

However, the dollar's momentum was halted by the National Association of Purchasing Managers report, which showed the prices component at a six year high. This hit the US Treasury bond market, which has been one of the *main driving forces behind the dollar's weakness in recent months.*

The dollar closed in London at Y99.82, almost a yen higher than Friday's close of Y98.97. Against the D-Mark, the US currency climbed to DM1.5573, from DM1.5515 on Friday. However, the weakness of the Treasury bond market caused the dollar to give up some of its gains in New York trading.

The pound was stronger against the D-Mark yesterday, *helped by continuing uncertainty about the electoral prospects* of Chancellor Helmut Kohl's coalition partners, the FDP.

Sterling rose through DM2.4520, seen as a key *resistance level by technical analysts,* to close at DM2.4574 in London, up more than a pfennig from Friday's close of DM2.4468. However, the pound only edged up against the dollar, closing at $1.578, from Friday's $1.5770.

■ The weekend announcement of a partial US-Japan trade deal relieved some of the worries that had hypnotised the foreign exchange markets throughout much of last week's trading.

The deal only covered the issues of government procurement, insurance and glass, and not the much more important automobile sector.

Accordingly, the deal may have little impact on the US's trade deficit with Japan. Furthermore, the US has said it will start to investigate Japan's replacement car parts market under Section 301 of its trade law.

Some traders accordingly doubted whether the deal would be strengthened in the long term. The dollar did rise sharply in the morning, briefly passing the Y100 level, with the help of rumoured hedge fund buying.

But signs that the dollar may *not get any permanent benefit* from the deal came in the afternoon when the dollar fell back on publication of the NAPM report.

On top of the bad news on prices, a rise in the *employment component of the NAPM* report strengthened expectations that the non-farm payroll figure, due to be published on Friday, will be strong. That will increase pressure on the US Federal Reserve to raise rates.

Although higher short term rates are normally positive for a currency, that factor is far outweighed by the negative impact stronger economic growth has been having on the Treasury bond markets. The key 30 year Treasury bond was down half a point, to yield 7.86 per cent, in London trading yesterday.

"The dollar/Treasury relationship may have weakened but we doubt that it has broken and we look for further bond market weakness to drag the dollar lower" said Mr Avinash Persaud, currency strategist at J P Morgan in London.

Mr Adrian Cunningham, senior currency economist at UBS, said, despite the uplift from the trade deal, "investors have got to overcome some nervousness regarding the dollar's fundamentals."

However, Mr Mike Norman, publisher of the Economic Contrarian Update in Geneva, argues that "we are in the process of seeing a major turn in the dollar." He believes that this could be very important for world bond markets since a dollar rise would quell inflationary fears in the US.

■ Most European currencies were stronger against the D-Mark, which, according to Mr Jeremy Hawkins, senior economic adviser at Bank of America "is going to remain soft until the election is out of the way. At the moment, the polls appear to suggest that Kohl could have some difficulty in forming a new government."

The Italian lira managed a small gain against the D-Mark – closing at L1,005/DM from Friday's L1,006/DM – despite renewed fears about the prospects of Budget passage.

■ In the UK money markets, the Bank of England provided cumulative help of £618m to relieve an £800m shortage. The Bank's earlier forecasts of the shortage had been £750m and *£700m. Overnight rates moved* within the range of 7 per cent to 4½ per cent.

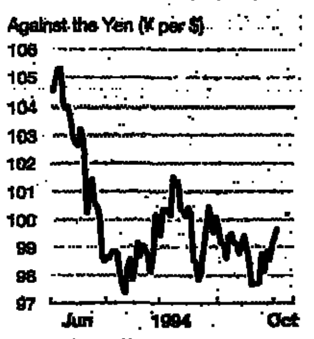
Short sterling contracts fell in the wake of figures showing a sharp jump in the annual rate of growth of M0, the narrow measure of the money supply.

Although some analysts argued the figures were merely a statistical blip, markets evidently felt that the pace of M0 growth, one of the Bank of England's inflationary indicators, made a further rise in base rates more likely.

At the close, the December short sterling contract was trading at 93.16, indicating that markets expect a full percentage point rise in base rates, from the current level of 5.75 per cent, before the end of the year.

**Dollar**

Against the Yen (Y per $)




Source: FT Graphite

■ Pound in New York

| Oct 3 | –Latest– | – Prev. close – |
|---|---|---|
| £ spot | 1.5780 | 1.5782 |
| 1 mth | 1.5781 | 1.5757 |
| 3 mth | 1.5772 | 1.5747 |
| 1 yr | 1.5624 | 1.5602 |

### POUND SPOT FORWARD AGAINST THE POUND

| Oct 3 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 17.2941 | +0.0766 | 847 - 035 | 17.3036 | 17.2206 | 17.2142 | 0.2 | 17.2023 | 0.4 | - | - | 114.8 |
| Belgium | (BFr) | 50.6276 | +0.1887 | 600 - 751 | 50.5780 | 50.3210 | 50.5478 | -0.5 | 50.4628 | 0.5 | 50.1326 | 0.6 | 116.6 |
| Denmark | (DKr) | 9.6250 | +0.0272 | 196 - 304 | 9.6340 | 9.6945 | 9.63 | -0.6 | 9.6414 | -0.7 | 9.6581 | -0.3 | 116.6 |
| Finland | (FM) | 7.6447 | -0.0241 | 395 - 489 | 7.7230 | 7.6580 | - | - | - | - | - | - | 87.1 |
| France | (FFr) | 8.3835 | +0.0384 | 776 - 874 | 8.3858 | 8.3516 | 8.3835 | 0.0 | 8.3783 | 0.2 | 8.3034 | 0.9 | 110.2 |
| Germany | (DM) | 2.4574 | +0.0106 | 552 - 585 | 2.4602 | 2.4419 | 2.4583 | 0.5 | 2.4594 | 0.7 | 2.42 | 1.5 | 125.5 |
| Greece | (Dr) | 374.694 | +1.478 | 436 - 752 | 380.738 | 373.078 | - | - | - | - | - | - | - |
| Ireland | (I£) | 1.0116 | -0.0004 | 110 - 126 | 1.0140 | 1.0103 | 1.0117 | 0.1 | 1.0119 | -0.1 | 1.0141 | -0.2 | 106.4 |
| Italy | (L) | 2470.35 | +10.24 | 879 - 193 | 2472.78 | 2460.01 | 2478.76 | -3.1 | 2487.31 | -2.7 | 2528.66 | -2.4 | 75.5 |
| Luxembourg | (LFr) | 50.6276 | +0.1887 | 600 - 751 | 50.5780 | 50.3210 | 50.5478 | -0.5 | 50.4628 | 0.5 | 50.1326 | 0.6 | 116.6 |
| Netherlands | (Fl) | 2.7513 | +0.0108 | 499 - 526 | 2.7548 | 2.7407 | 2.7502 | 0.5 | 2.747 | 0.6 | 2.7107 | 1.5 | 120.5 |
| Norway | (NKr) | 10.7297 | +0.0252 | 235 - 359 | 10.7436 | 10.7077 | 10.7292 | 0.1 | 10.7327 | -0.1 | 10.7337 | 0.0 | 96.0 |
| Portugal | (Es) | 250.271 | +0.789 | 113 - 429 | 250.432 | 248.487 | 252.001 | -8.3 | 255.181 | -7.8 | - | - | - |
| Spain | (Pta) | 203.263 | +0.5 | 119 - 406 | 203.425 | 202.541 | 203.653 | -2.3 | 204.343 | -2.1 | 206.673 | -1.7 | 88.9 |
| Sweden | (SKr) | 11.6160 | +0.0209 | 060 - 277 | 11.6570 | 11.7572 | 11.2359 | -1.9 | 11.6634 | -2.3 | 12.0998 | -2.4 | 75.2 |
| Switzerland | (SFr) | 2.0430 | +0.0121 | 416 - 442 | 2.0443 | 2.0395 | 2.0403 | 1.6 | 2.0347 | 1.6 | 1.9927 | 2.5 | 122.2 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 80.2 |
| Ecu | - | 1.2837 | +0.0039 | 827 - 846 | 1.2847 | 1.2798 | 1.284 | -0.2 | 1.2842 | -0.1 | 1.2761 | 0.4 | - |
| SDR† | - | 0.926898 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5778 | +0.0059 | 770 - 782 | 1.5795 | 1.5737 | - | - | - | - | - | - | - |
| Brazil | (R) | 1.3460 | -0.0006 | 440 - 480 | 1.3492 | 1.3440 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.1232 | +0.0079 | 221 - 242 | 2.1247 | 2.1166 | 2.1226 | 0.3 | 2.1205 | 0.5 | 2.1106 | 0.6 | 88.0 |
| Mexico | (New Peso) | 5.3681 | +0.0045 | 625 - 637 | 5.3649 | 5.3485 | - | - | - | - | - | - | - |
| USA | ($) | 1.5780 | +0.001 | 775 - 785 | 1.5800 | 1.5740 | 1.5774 | 0.5 | 1.5766 | 0.4 | 1.5615 | 1.0 | 62.4 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 2.1298 | -0.0015 | 283 - 308 | 2.1368 | 2.1213 | 2.1295 | 0.0 | 2.1309 | -0.2 | 2.1491 | -0.9 | - |
| Hong Kong | (HK$) | 12.1936 | +0.0075 | 893 - 979 | 12.2093 | 12.1632 | 12.1897 | 0.4 | 12.1865 | 0.2 | 12.1958 | 0.0 | - |
| India | (Rs) | 49.4999 | +0.0413 | 783 - 215 | 49.5460 | 49.3600 | - | - | - | - | - | - | - |
| Japan | (Y) | 157.518 | +1.44 | 419 - 613 | 157.690 | 155.000 | 157.068 | 3.4 | 156.131 | 3.6 | 150.636 | 4.4 | 187.6 |
| Malaysia | (M$) | 4.0495 | +0.0057 | 474 - 515 | 4.0524 | 4.0389 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.6276 | -0.0009 | 149 - 209 | 2.6213 | 2.6133 | 2.6217 | -1.5 | 2.6296 | -1.8 | 2.6517 | -1.3 | - |
| Philippines | (Peso) | 40.6703 | -0.2664 | 784 - 621 | 40.9710 | 40.7765 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.9203 | +0.005 | 180 - 225 | 5.9263 | 5.9033 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.3410 | -0.0031 | 394 - 425 | 2.3430 | 2.3342 | - | - | - | - | - | - | - |
| S Africa (Com) | (R) | 5.6457 | +0.0213 | 427 - 487 | 5.6497 | 5.6257 | - | - | - | - | - | - | - |
| S Africa (Fin) | (R) | 6.7225 | +0.0043 | 202 - 300 | 6.7825 | 6.7200 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1260.35 | +0.8 | 963 - 108 | 1261.65 | 1257.47 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 41.3547 | +0.1191 | 337 - 756 | 41.3610 | 41.2476 | - | - | - | - | - | - | - |
| Thailand | (Bt) | 39.4073 | +0.1117 | 788 - 177 | 39.4740 | 39.3610 | - | - | - | - | - | - | - |

†SDR rates for Sep 30. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

### DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Oct 3 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P. Morgan index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.9595 | +0.041 | 570 - 620 | 10.9875 | 10.9080 | 10.9595 | 0.0 | 10.9593 | 0.0 | 10.8845 | 0.7 | 104.0 |
| Belgium | (BFr) | 32.0200 | +0.1 | 000 - 400 | 32.0670 | 31.8700 | 32.02 | 0.0 | 32.03 | -0.1 | 32.09 | -0.2 | 105.7 |
| Denmark | (DKr) | 6.0996 | +0.0134 | 980 - 010 | 6.1160 | 6.0780 | 6.1042 | -0.9 | 6.1155 | -1.0 | 6.1807 | -1.3 | 104.8 |
| Finland | (FM) | 4.8448 | -0.0183 | 426 - 483 | 4.8857 | 4.8428 | 4.8446 | 0.0 | 4.8436 | 0.1 | 4.8771 | -0.7 | 81.1 |
| France | (FFr) | 5.3121 | +0.0178 | 107 - 135 | 5.3250 | 5.2955 | 5.314 | -0.4 | 5.3143 | -0.2 | 5.3176 | -0.1 | 106.4 |
| Germany | (DM) | 1.5572 | +0.0058 | 570 - 575 | 1.5610 | 1.5458 | 1.5574 | -0.1 | 1.5582 | 0.3 | 1.5498 | 0.5 | 108.5 |
| Greece | (Dr) | 237.395 | +0.785 | 360 - 410 | 247.420 | 236.850 | 237.685 | -1.5 | 238.26 | -1.5 | 240.76 | -1.4 | 68.7 |
| Ireland | (I£) | 1.5600 | -0.0016 | 589 - 600 | 1.5641 | 1.5548 | 1.5594 | 0.5 | 1.5581 | 0.4 | 1.5564 | 1.3 | - |
| Italy | (L) | 1565.50 | +5.5 | 500 - 600 | 1569.75 | 1557.25 | 1570.15 | -3.6 | 1577.7 | -3.1 | 1619.5 | -3.4 | 76.0 |
| Luxembourg | (LFr) | 32.0200 | +0.1 | 000 - 400 | 32.0670 | 31.8700 | 32.02 | 0.0 | 32.03 | -0.1 | 32.09 | -0.2 | 105.7 |
| Netherlands | (Fl) | 1.7435 | +0.0057 | 432 - 438 | 1.7485 | 1.7354 | 1.7434 | 0.1 | 1.7424 | 0.3 | 1.739 | 0.4 | 105.4 |
| Norway | (NKr) | 6.7996 | +0.0117 | 978 - 013 | 6.8250 | 6.7785 | 6.8046 | -0.9 | 6.8251 | -1.5 | 6.8938 | -1.4 | 95.9 |
| Portugal | (Es) | 158.600 | +0.4 | 550 - 650 | 158.920 | 157.670 | 159.245 | -4.9 | 160.47 | -4.7 | 165.2 | -4.2 | 94.9 |
| Spain | (Pta) | 128.810 | +0.236 | 760 - 860 | 129.120 | 128.440 | 129.105 | -2.7 | 129.615 | -2.5 | 132.36 | -2.8 | 80.6 |
| Sweden | (SKr) | 7.4685 | +0.0084 | 640 - 930 | 7.5216 | 7.4619 | 7.5037 | -2.4 | 7.5355 | -2.5 | 7.7195 | -3.1 | 80.33 |
| Switzerland | (SFr) | 1.2947 | +0.0069 | 943 - 950 | 1.2980 | 1.2869 | 1.2934 | 1.2 | 1.2908 | 1.3 | 1.2761 | 1.4 | 108.3 |
| UK | (£) | 1.5780 | +0.001 | 775 - 785 | 1.5800 | 1.5740 | 1.5774 | 0.5 | 1.5766 | 0.4 | 1.5615 | 1.0 | 85.3 |
| Ecu | - | 1.2293 | -0.003 | 286 - 298 | 1.2340 | 1.2262 | 1.2286 | 0.7 | 1.2278 | 0.5 | 1.2218 | 0.6 | - |
| SDR† | - | 1.46738 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9998 | -0.0003 | 997 - 998 | 0.9998 | 0.9997 | - | - | - | - | - | - | - |
| Brazil | (R) | 0.8530 | -0.001 | 520 - 540 | 0.8540 | 0.8520 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.3455 | +0.0041 | 452 - 457 | 1.3480 | 1.3432 | 1.3456 | 0.0 | 1.346 | 0.1 | 1.351 | -0.4 | 84.7 |
| Mexico | (New Peso) | 3.3955 | -0.005 | 930 - 980 | 3.3980 | 3.3930 | 3.3965 | -0.4 | 3.3983 | -0.3 | 3.4057 | -0.3 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | 95.6 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.3496 | -0.0016 | 492 - 499 | 1.3523 | 1.3488 | 1.3499 | -0.2 | 1.3508 | -0.3 | 1.3579 | -0.6 | 86.8 |
| Hong Kong | (HK$) | 7.7275 | +0.0005 | 270 - 275 | 7.7275 | 7.7270 | 7.727 | 0.0 | 7.7279 | -0.1 | 7.7428 | -0.2 | - |
| India | (Rs) | 31.3688 | +0.0063 | 650 - 725 | 31.3725 | 31.3650 | 31.4538 | -3.3 | 31.5988 | -2.9 | - | - | - |
| Japan | (Y) | 99.8200 | +0.85 | 900 - 500 | 100.100 | 98.0600 | 99.57 | 3.0 | 99.03 | 3.2 | 96.465 | 3.4 | 149.5 |
| Malaysia | (M$) | 2.5662 | +0.002 | 657 - 667 | 2.5667 | 2.5616 | 2.567 | -0.3 | 2.5645 | 0.3 | 2.6192 | -2.1 | - |
| New Zealand | (NZ$) | 1.6690 | -0.0016 | 576 - 603 | 1.6603 | 1.6567 | 1.66 | -0.7 | 1.6616 | -0.7 | 1.6671 | -0.5 | - |
| Philippines | (Peso) | 25.9000 | -0.2 | 500 - 500 | 26.1500 | 25.8500 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 3.7510 | +0.0003 | 5 - 520 | 3.7530 | 3.7505 | 3.7531 | -0.4 | 3.7572 | -0.6 | 3.7756 | -0.6 | - |
| Singapore | (S$) | 1.4835 | +0.001 | 830 - 840 | 1.4840 | 1.4815 | 1.4822 | 1.1 | 1.4803 | 0.9 | 1.4735 | 0.7 | - |
| S Africa (Com) | (R) | 3.5778 | +0.0113 | 770 - 785 | 3.5805 | 3.5710 | 3.5933 | -5.2 | 3.6216 | -4.9 | 3.6993 | -3.4 | - |
| S Africa (Fin) | (R) | 4.2700 | - | 600 - 800 | 4.3050 | 4.2600 | 4.3037 | -9.5 | 4.3625 | -8.7 | - | - | - |
| South Korea | (Won) | 798.700 | - | 500 - 900 | 798.900 | 798.000 | 801.7 | -4.5 | 805.2 | -3.3 | 823.7 | -3.1 | - |
| Taiwan | (T$) | 26.2070 | +0.057 | 020 - 120 | 26.2120 | 26.1505 | 26.227 | -0.9 | 26.267 | -0.9 | - | - | - |
| Thailand | (Bt) | 25.0000 | -0.055 | 350 - 350 | 25.0550 | 24.9800 | 25.1025 | -5.2 | 25.23 | -3.2 | 25.71 | -2.7 | - |

†SDR rate for Sep 30. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 30. Base average 1990=100

■ OTHER CURRENCIES

| Oct 3 | £ | $ |
|---|---|---|
| Hungary | 171.948 - 172.214 | 109.000 - 109.100 |
| Iran | 2761.00 - 2764.00 | 1749.00 - 1751.00 |
| Kuwait | 0.4690 - 0.4708 | 0.2973 - 0.2981 |
| Poland | 36653.2 - 36768.0 | 23235.0 - 23255.0 |
| Russia | 4240.16 - 4244.90 | 2687.00 - 2689.00 |
| UAE | 5.7894 - 5.8010 | 3.6715 - 3.6735 |

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Oct 3 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 19.05 | 16.59 | 4.863 | 2.001 | 4869 | 5.446 | 21.22 | 495.2 | 402.2 | 23.38 | 4.044 | 1.979 | 4.202 | 3.124 | 311.8 | 2.540 |
| Denmark | (DKr) | 52.49 | 10 | 8.709 | 2.553 | 1.050 | 2566 | 2.858 | 11.14 | 259.9 | 211.1 | 12.27 | 2.123 | 1.039 | 2.206 | 1.639 | 163.6 | 1.333 |
| France | (FFr) | 60.27 | 11.48 | 10 | 2.931 | 1.206 | 2947 | 3.282 | 12.79 | 298.5 | 242.4 | 14.09 | 2.437 | 1.193 | 2.533 | 1.883 | 187.9 | 1.531 |
| Germany | (DM) | 20.56 | 3.917 | 3.411 | 1 | 0.411 | 1005 | 1.120 | 4.363 | 101.8 | 82.70 | 4.807 | 0.832 | 0.407 | 0.864 | 0.642 | 64.10 | 0.522 |
| Ireland | (I£) | 49.97 | 9.520 | 8.291 | 2.430 | 1 | 2443 | 2.721 | 10.60 | 247.5 | 201.0 | 11.68 | 2.021 | 0.989 | 2.100 | 1.561 | 155.8 | 1.269 |
| Italy | (L) | 2.045 | 0.390 | 0.339 | 0.099 | 0.041 | 100. | 0.111 | 0.434 | 10.13 | 8.227 | 0.478 | 0.083 | 0.040 | 0.086 | 0.064 | 6.377 | 0.052 |
| Netherlands | (Fl) | 18.35 | 3.499 | 3.047 | 0.893 | 0.368 | 897.9 | 1 | 3.897 | 90.95 | 73.86 | 4.293 | 0.743 | 0.364 | 0.772 | 0.574 | 57.26 | 0.466 |
| Norway | (NKr) | 47.13 | 8.979 | 7.819 | 2.292 | 0.943 | 2304 | 2.566 | 10 | 233.4 | 189.6 | 11.02 | 1.906 | 0.933 | 1.980 | 1.472 | 146.9 | 1.197 |
| Portugal | (Es) | 20.19 | 3.847 | 3.350 | 0.982 | 0.404 | 987.2 | 1.100 | 4.285 | 100. | 81.22 | 4.720 | 0.817 | 0.400 | 0.849 | 0.631 | 62.95 | 0.513 |
| Spain | (Pta) | 24.86 | 4.737 | 4.125 | 1.209 | 0.498 | 1216 | 1.354 | 5.276 | 123.1 | 100. | 5.812 | 1.005 | 0.492 | 1.045 | 0.777 | 77.51 | 0.631 |
| Sweden | (SKr) | 42.78 | 8.150 | 7.097 | 2.080 | 0.856 | 2091 | 2.329 | 9.077 | 211.8 | 172.1 | 10 | 1.730 | 0.847 | 1.798 | 1.336 | 133.4 | 1.086 |
| Switzerland | (SFr) | 24.73 | 4.711 | 4.103 | 1.203 | 0.495 | 1209 | 1.347 | 5.247 | 122.5 | 99.46 | 5.781 | 1 | 0.489 | 1.039 | 0.772 | 77.09 | 0.628 |
| UK | (£) | 50.52 | 9.625 | 8.382 | 2.457 | 1.011 | 2470 | 2.751 | 10.72 | 250.2 | 203.2 | 11.81 | 2.043 | 1 | 2.123 | 1.578 | 157.5 | 1.283 |
| Canada | (C$) | 23.80 | 4.534 | 3.948 | 1.157 | 0.476 | 1163 | 1.296 | 5.049 | 117.9 | 95.71 | 5.563 | 0.962 | 0.471 | 1 | 0.743 | 74.19 | 0.604 |
| US | ($) | 32.02 | 6.099 | 5.312 | 1.557 | 0.641 | 1565 | 1.743 | 6.793 | 158.6 | 128.8 | 7.484 | 1.295 | 0.634 | 1.345 | 1 | 99.81 | 0.813 |
| Japan | (Y) | 32.08 | 6.111 | 5.322 | 1.560 | 0.642 | 1568 | 1.747 | 6.806 | 158.9 | 129.0 | 7.498 | 1.297 | 0.635 | 1.348 | 1.002 | 100. | 0.815 |
| Ecu | | 39.38 | 7.502 | 6.533 | 1.915 | 0.788 | 1925 | 2.144 | 8.355 | 195.0 | 158.4 | 9.205 | 1.592 | 0.779 | 1.655 | 1.230 | 122.8 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

### EMS EUROPEAN CURRENCY UNIT RATES

| Oct 3 | Ecu cen. rates | Rate against Ecu | Change on day | % +/- from cen. rate | % spread v weakest | Div. ind. |
|---|---|---|---|---|---|---|
| Ireland | 0.808628 | 0.791706 | -0.002535 | -2.09 | 5.29 | 14 |
| Netherlands | 2.19672 | 2.15255 | +0.00138 | -2.01 | 5.20 | 14 |
| Belgium | 40.2123 | 39.3224 | +0.0244 | -1.72 | 4.89 | 13 |
| Germany | 1.94964 | 1.92213 | +0.00188 | -1.41 | 4.56 | 10 |
| France | 6.53883 | 6.55831 | +0.00296 | 0.30 | 2.78 | -2 |
| Denmark | 7.43679 | 7.52061 | -0.00731 | 1.28 | 1.77 | -9 |
| Portugal | 192.854 | 195.768 | -0.017 | 1.51 | 1.56 | -10 |
| Spain | 154.250 | 158.014 | -0.145 | 3.09 | 0.00 | -22 |
| NON ERM MEMBERS | | | | | | |
| Greece | 264.513 | 293.026 | +0.201 | 10.78 | -6.94 | - |
| Italy | 1793.19 | 1982.52 | +0.84 | 7.77 | -4.34 | - |
| UK | 0.786749 | 0.782092 | -0.003382 | -0.60 | 3.71 | - |

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 0.6455 | 0.6418 | -0.0033 | 0.6468 | 0.6407 | 29,288 | 72,370 |
| Mar | 0.6417 | 0.6426 | -0.0033 | 0.6427 | 0.6417 | 90 | 3,851 |
| Jun | - | 0.6469 | - | - | - | 100 | 574 |

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 1.0213 | 1.0079 | -0.0069 | 1.0264 | 1.0051 | 24,612 | 48,150 |
| Mar | 1.0132 | 1.0156 | -0.0074 | 1.0250 | 1.0132 | 131 | 2,737 |
| Jun | - | 1.0329 | - | - | - | 5 | 447 |

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | CALLS Oct | Nov | Dec | PUTS Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| 1.500 | 7.51 | 7.52 | 7.63 | - | 0.03 | 0.26 |
| 1.525 | 5.08 | 5.22 | 5.59 | - | 0.18 | 0.64 |
| 1.550 | 2.71 | 3.19 | 3.77 | 0.10 | 0.64 | 1.29 |
| 1.575 | 0.92 | 1.68 | 2.37 | 2.47 | 1.56 | 2.32 |
| 1.600 | 0.15 | 0.73 | 1.37 | 4.74 | 3.04 | 3.73 |
| 1.625 | - | 0.24 | 0.71 | 7.22 | 5.04 | 5.55 |

Previous day's vol., Calls 6,441 Puts 14,372 . Prev. day's open int., Calls 452,997 Puts 385,735

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 0.7790 | 0.7730 | -0.0053 | 0.7800 | 0.7710 | 14,646 | 33,581 |
| Mar | 0.7735 | 0.7757 | -0.0075 | 0.7762 | 0.7735 | 72 | 691 |
| Jun | - | 0.7800 | - | - | 0.7800 | 4 | 63 |

■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 1.5766 | 1.5744 | -0.0002 | 1.5766 | 1.5724 | 5,911 | 32,095 |
| Mar | 1.5720 | 1.5720 | - | 1.5720 | 1.5700 | 6 | 274 |
| Jun | - | 1.5650 | - | - | 1.5650 | 1 | 8 |

## WORLD INTEREST RATES

### MONEY RATES

| October 3 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | 4⅞ | 4⅝ | 5⅛ | 5⅝ | 6¼ | 7.40 | 4.50 | – |
| week ago | 4⅞ | 4⅝ | 5⅛ | 5⅞ | 6¼ | 7.40 | 4.50 | – |
| France | 5⅝ | 5¼ | 5⅝ | 5⅞ | 6¼ | 5.00 | – | 5.75 |
| week ago | 5⅛ | 5¼ | 5⅝ | 5⅝ | 6¼ | 5.00 | – | 5.75 |
| Germany | 4.15 | 4.95 | 5.18 | 5.23 | 5.63 | 6.00 | 4.50 | 4.85 |
| week ago | 4.52 | 4.95 | 5.05 | 5.23 | 5.63 | 6.00 | 4.50 | 4.85 |
| Ireland | 4⅜ | 5½ | 6⅛ | 6⅜ | 7⅛ | – | – | 6.25 |
| week ago | 4¼ | 5½ | 6⅛ | 6⅜ | 7⅛ | – | – | 6.25 |
| Italy | 8¼ | 8¼ | 8⅝ | 9¼ | 10 | – | 7.50 | 8.20 |
| week ago | 8¼ | 8¼ | 8⅝ | 9⅛ | 10⅛ | – | 7.50 | 8.25 |
| Netherlands | 4.84 | 5.00 | 5.22 | 5.35 | 5.75 | – | 5.25 | – |
| week ago | 4.84 | 5.00 | 5.12 | 5.33 | 5.72 | – | 5.25 | – |
| Switzerland | 3⅞ | 3⅞ | 4¼ | 4⅜ | 4¼ | 6.625 | 3.50 | – |
| week ago | 3⅞ | 3⅞ | 4⅛ | 4⅜ | 4⅜ | 6.625 | 3.50 | – |
| US | 4⅞ | 5 | 5¼ | 5⅞ | 6¼ | – | 4.00 | – |
| week ago | 4⅞ | 5 | 5⅛ | 5⅝ | 6⅛ | – | 4.00 | – |
| Japan | 2⅛ | 2⅛ | 2¼ | 2⅛ | 2⅜ | – | 1.75 | – |
| week ago | 2⅛ | 2⅛ | 2¼ | 2⅛ | 2⅜ | – | 1.75 | – |
| ■ $ LIBOR FT London | | | | | | | | |
| Interbank Fixing | – | 5¼ | 5⅝ | 5⅝ | 6⅝ | – | – | – |
| week ago | – | 5¼ | 5⅝ | 5⅞ | 6⅝ | – | – | – |
| US Dollar CDs | – | 4.84 | 5.22 | 5.50 | 6.06 | – | – | – |
| week ago | – | 4.84 | 5.03 | 5.35 | 5.93 | – | – | – |
| SDR Linked Ds | – | 3⅝ | 3⅞ | 3⅝ | 4 | – | – | – |
| week ago | – | 3⅝ | 3⅞ | 3⅝ | 4 | – | – | – |

ECU Linked Ds mid rates: 1 mth: 5⅛; 3 mths: 5⅜; 6 mths: 6⅛; 1 year: 6⅝. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

### EURO CURRENCY INTEREST RATES

| Oct 3 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | 4⅞ - 4⅝ | 4⅞ - 4⅝ | 4⅞ - 4⅝ | 5⅛ - 5¼ | 5⅞ - 5⅝ | 6⅝ - 6⅞ |
| Danish Krone | 5⅞ - 5⅛ | 5⅞ - 5½ | 6⅜ - 5⅞ | 6⅞ - 6½ | 7⅜ - 7⅛ | 7⅞ - 7⅝ |
| D-Mark | 5 - 4⅞ | 4⅞ - 4⅞ | 4⅞ - 4⅞ | 5⅜ - 5⅛ | 5⅜ - 5⅛ | 5⅞ - 5⅝ |
| Dutch Guilder | 5⅛ - 4⅞ | 5⅛ - 4⅞ | 5 - 4⅞ | 5⅛ - 5⅛ | 5⅜ - 5⅛ | 5⅞ - 5⅝ |
| French Franc | 5⅜ - 5¼ | 5⅞ - 5⅝ | 5⅞ - 5⅜ | 5⅞ - 5⅞ | 5⅞ - 5⅛ | 6⅞ - 6⅛ |
| Portuguese Esc. | 9¼ - 9 | 9⅜ - 9⅛ | 9⅛ - 9⅝ | 10⅞ - 10⅛ | 10⅞ - 10⅜ | 10⅞ - 10½ |
| Spanish Peseta | 7⅞ - 7⅜ | 7⅞ - 7⅜ | 7⅝ - 7½ | 8 - 7⅞ | 8½ - 8⅜ | 9⅛ - 9⅛ |
| Sterling | 6⅛ - 5⅞ | 5⅞ - 5½ | 5⅞ - 5⅞ | 6 - 5⅞ | 6⅝ - 6½ | 7⅞ - 7⅛ |
| Swiss Franc | 4⅛ - 3⅞ | 4⅛ - 3⅞ | 3⅞ - 3⅞ | 4⅞ - 4⅛ | 4⅜ - 4⅛ | 4⅞ - 4⅝ |
| Can. Dollar | 4⅞ - 4⅞ | 4⅞ - 4⅞ | 5 - 4⅞ | 5⅞ - 5⅞ | 5⅞ - 5⅞ | 6⅞ - 6⅞ |
| US Dollar | 4⅞ - 4⅞ | 4⅞ - 4⅞ | 5⅛ - 4⅞ | 5½ - 5⅜ | 5⅝ - 5⅝ | 6⅞ - 6⅛ |
| Italian Lira | 9 - 7½ | 8⅝ - 7⅝ | 8⅝ - 8⅛ | 8⅞ - 8⅝ | 8⅞ - 8⅝ | 9⅞ - 9⅞ |
| Yen | 2⅛ - 2⅞ | 2⅞ - 2⅞ | 2⅞ - 2⅛ | 2⅞ - 2⅞ | 2½ - 2⅞ | 2⅞ - 2⅝ |
| Asian $Sing | ⅝ - ½ | 2⅝ - 2½ | 3⅞ - 3⅛ | 3⅞ - 3⅞ | 4 - 3⅞ | 4⅞ - 4⅛ |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 94.09 | 94.06 | -0.02 | 94.09 | 94.05 | 7,753 | 48,350 |
| Mar | 93.62 | 93.59 | -0.03 | 93.63 | 93.57 | 6,786 | 33,548 |
| Jun | 93.22 | 93.19 | -0.03 | 93.23 | 93.17 | 3,487 | 25,318 |
| Sep | 92.91 | 92.86 | -0.04 | 92.91 | 92.85 | 3,296 | 18,845 |

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | - | 93.99 | -0.08 | - | - | 0 | 2123 |
| Mar | - | 93.61 | -0.07 | - | - | 0 | 1435 |
| Jun | - | 93.20 | -0.07 | - | - | 0 | 274 |
| Sep | - | 92.90 | -0.07 | - | - | 0 | 52 |

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 94.68 | 94.64 | -0.03 | 94.69 | 94.63 | 19032 | 188411 |
| Mar | 94.28 | 94.23 | -0.04 | 94.28 | 94.22 | 11278 | 169822 |
| Jun | 93.86 | 93.79 | -0.05 | 93.86 | 93.77 | 10043 | 107271 |
| Sep | 93.49 | 93.42 | -0.06 | 93.49 | 93.41 | 8220 | 89959 |

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 90.80 | 90.69 | -0.07 | 90.82 | 90.65 | 4518 | 32215 |
| Mar | 90.08 | 89.96 | -0.09 | 90.08 | 89.95 | 1655 | 16360 |
| Jun | 89.55 | 89.42 | -0.09 | 89.55 | 89.42 | 1159 | 15707 |
| Sep | 89.13 | 89.03 | -0.10 | 89.13 | 89.03 | 356 | 15201 |

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 95.61 | 95.62 | -0.02 | 95.62 | 95.58 | 2982 | 23899 |
| Mar | 95.25 | 95.24 | -0.03 | 95.25 | 95.21 | 853 | 12084 |
| Jun | 94.85 | 94.88 | - | 94.89 | 94.83 | 585 | 6685 |
| Sep | 94.58 | 94.57 | -0.02 | 94.58 | 94.56 | 135 | 961 |

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 93.65 | 93.62 | -0.03 | 93.66 | 93.60 | 1370 | 7500 |
| Mar | 93.08 | 93.04 | -0.02 | 93.08 | 93.01 | 1460 | 5803 |
| Jun | 92.56 | 92.52 | -0.06 | 92.56 | 92.51 | 451 | 2811 |
| Sep | 92.13 | 92.11 | -0.04 | 92.15 | 92.11 | 38 | 1038 |

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 94.04 | 94.03 | -0.02 | 94.05 | 94.03 | 130,360 | 495,483 |
| Mar | 93.65 | 93.67 | - | 93.67 | 93.65 | 102,227 | 415,878 |
| Jun | 93.26 | 93.26 | - | 93.27 | 93.25 | 81,235 | 292,272 |

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 94.61 | 94.61 | -0.02 | 94.61 | 94.60 | 1,853 | 19,884 |
| Mar | 94.19 | 94.20 | - | 94.20 | 94.19 | 1,618 | 9,762 |
| Jun | - | 93.82 | - | - | 93.82 | 286 | 2,599 |

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

| Strike Price | CALLS Oct | Nov | Dec | Mar | PUTS Oct | Nov | Dec | Mar |
|---|---|---|---|---|---|---|---|---|
| 9450 | 0.15 | 0.18 | 0.22 | 0.15 | 0.01 | 0.04 | 0.08 | 0.42 |
| 9475 | 0.02 | 0.06 | 0.09 | 0.07 | 0.13 | 0.17 | 0.20 | 0.59 |
| 9500 | 0 | 0.01 | 0.03 | 0.03 | 0.36 | 0.37 | 0.39 | 0.80 |

Est. vol. total, Calls 4112 Puts 4827. Previous day's open int., Calls 183398 Puts 180401

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

| Strike Price | CALLS Dec | Mar | Jun | PUTS Dec | Mar | Jun |
|---|---|---|---|---|---|---|
| 9550 | 0.18 | 0.13 | 0.08 | 0.08 | 0.39 | 0.70 |
| 9575 | 0.05 | 0.07 | 0.04 | 0.18 | 0.58 | 0.91 |
| 9600 | 0.02 | 0.04 | 0.02 | 0.40 | 0.80 | 1.14 |

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 1870 Puts 815

## UK INTEREST RATES

### LONDON MONEY RATES

| Oct 3 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 7 - 4½ | 5⅝ - 5¼ | 5⅞ - 5⅜ | 6 - 5⅞ | 6⅝ - 6⅞ | 7⅞ - 7⅞ |
| Sterling CDs | - | - | 5⅞ - 5⅞ | 5⅞ - 5⅞ | 6½ - 6⅜ | 7½ - 7⅜ |
| Treasury Bills | - | - | 5⅞ - 5¼ | 5⅞ - 5⅞ | - | - |
| Bank Bills | - | - | 5⅞ - 5⅝ | 5¾ - 5⅝ | 6⅛ - 6⅛ | - |
| Local authority deps. | 4⅞ - 4⅞ | 5⅞ - 6⅞ | 5⅞ - 5⅝ | 5⅞ - 5⅞ | 6⅞ - 6⅞ | 7⅞ - 7⅞ |
| Discount Market deps | 6¼ - 5 | 5⅞ - 5¼ | - | - | - | - |

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 1½ | 4 | 3¾ | 3¼ | 3½ |

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ¼pc.
Ave. tender rate of discount 5.4710pc. ECGD fixed rate Stg. Export Finance. Make up day Sep 30, 1994. Agreed rate for period Oct 26, 1994 to Nov 25, 1994, Schemes II & III 7.05pc. Reference rate for period Sep 1, 1994 to Sep 30, 1994, Schemes IV & V 5.735pc. Finance House Base Rate 6pc from Oct 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Dec | 93.23 | 93.16 | -0.04 | 93.24 | 93.14 | 24429 | 165306 |
| Mar | 92.33 | 92.24 | -0.06 | 92.35 | 92.20 | 21570 | 80403 |
| Jun | 91.70 | 91.62 | -0.05 | 91.70 | 91.59 | 5861 | 51993 |
| Sep | 91.23 | 91.19 | -0.01 | 91.23 | 91.15 | 2529 | 52280 |

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

| Strike Price | CALLS Dec | Mar | Jun | PUTS Dec | Mar | Jun |
|---|---|---|---|---|---|---|
| 9300 | 0.35 | 0.11 | 0.16 | 0.19 | 0.87 | 1.54 |
| 9325 | 0.21 | 0.07 | 0.11 | 0.30 | 1.08 | 1.74 |
| 9350 | 0.11 | 0.04 | 0.08 | 0.45 | 1.30 | 1.96 |

Est. vol. total, Calls 20989 Puts 5106. Previous day's open int., Calls 285343 Puts 180716

### BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 5.75 | Duncan Lawrie | 5.75 | * Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution. | 8 |
| Allied Trust Bank | 5.25 | Exeter Bank Limited | 6.75 | Royal Bk of Scotland | 5.75 |
| AIB Bank | 5.75 | Financial & Gen Bank | 6.5 | ●Smith & Williamson Secs. | 5.75 |
| ●Henry Ansbacher | 5.75 | ●Robert Fleming & Co | 5.75 | TSB | 5.75 |
| Bank of Baroda | 5.75 | Girobank | 5.75 | ●United Bk of Kuwait | 5.75 |
| Banco Bilbao Vizcaya | 5.75 | ●Guinness Mahon | 5.75 | Unity Trust Bank Plc | 5.75 |
| Bank of Cyprus | 5.75 | Habib Bank AG Zurich | 5.75 | Western Trust | 5.75 |
| Bank of Ireland | 5.75 | ●Hambros Bank | 5.75 | Whiteaway Laidlaw | 5.75 |
| Bank of India | 5.75 | Heritable & Gen Inv Bk. | 5.75 | Yorkshire Bank | 5.75 |
| Bank of Scotland | 5.75 | ●Hill Samuel | 5.75 | | |
| Barclays Bank | 5.75 | C. Hoare & Co | 5.75 | ● Members of London Investment Banking Association | |
| Brit Bk of Mid East | 6.25 | Hongkong & Shanghai | 5.25 | * In administration | |
| ●Brown Shipley & Co Ltd | 5.75 | Julian Hodge Bank | 5.75 | | |
| CL Bank Nederland | 5.75 | ●Leopold Joseph & Sons | 5.75 | | |
| Citibank NA | 5.75 | Lloyds Bank | 5.75 | | |
| Clydesdale Bank | 5.75 | Meghraj Bank Ltd | 5.75 | | |
| The Co-operative Bank | 5.75 | Midland Bank | 5.75 | | |
| Coutts & Co | 5.75 | * Mount Banking | 6 | | |
| Credit Lyonnais | 5.75 | NatWestminster | 5.75 | | |
| Cyprus Popular Bank | 5.75 | ●Rea Brothers | 5.75 | | |

## MONEY MARKET FUNDS

### Money Market Trust Funds

Coutts & Co
CAF Money Management Co Ltd
The CBF Charities Deposit Account
Cent. Bd of Fin. of Church of England
Dao Heng Bank (London) PLC Premier Acc
Dunedin Yet Plc-Dunedin 500 Acc
Fidelity Money Market Account
Halifax Bldg Soc Asset Reserve Cheque Acc

### Money Market Bank Accounts

Allied Trust Bank Ltd
Julian Hodge Bank Ltd
American Express Bank Ltd
Humberclyde Finance Group
Leopold Joseph & Sons Ltd
Arbuthnot Latham & Co Ltd
Kleinwort Benson Ltd
Kleinwort Benson Private Bank
Lloyds Bank – Investment Account
Bank of Ireland High Interest Cheque Acc
Midland Bank plc
Bank of Scotland
Nationwide Bldg Soc – Businessinvestor
Barclays Select
Portman Bldg Soc Portfolio Cheque Account
Barclays Prime Account H.I.C.A.
Rea Brothers Limited, Bankers
Brown Shipley & Co Ltd
Royal Bank of Scotland plc Premium Acc
Caledonian Bank Plc
Cater Allen Ltd
Save & Prosper/Robert Fleming
Charterhouse Bank Limited
Tyndall Bank plc
United Dominions Trust Ltd
Clydesdale Bank Flexible Solution Acc
United Trust Bank Ltd
The Co-operative Bank
J. Henry Schroder Wagg & Co Ltd
Western Trust High Interest Cheque Acc

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## LEGAL NOTICES

**SLOUGH ENERGY SUPPLIES LIMITED**

***NOTICE UNDER SECTION 6 (3) OF THE ELECTRICITY ACT 1989***

Take notice that Slough Energy Supplies Limited has applied for a generating licence, by reference to sections 4 (1)(a) and 6(1)(a) of the Electricity Act 1989, in the following terms:

1. Full name of the applicant(s):- Slough Energy Supplies Limited
2. Address of the applicant(s), or in the case of a body corporate, the registered or principal office;- 234, Bath Road, Slough, Berkshire, SL1 4EE
3. Where the applicant is a company, the full names of the current Directors and the company's registered number;- Sir Nigel Mobbs, Roger William Carey, Derek Robert Wilson, Hugh Linklater Thomson, David Edmond Frederick Simons, Philip Norman Jackson. Registered Number: 2474514.
4. Where a holding of 20 per cent or more of the shares of an applicant is held by a body corporate or partnership or an unincorporated association carrying on a trade or business with or without a view to profit, the name(s) and address(es) of the holder(s) of such shares shall be provided;- Slough Estates plc, 234 Bath Road, Slough, Berkshire, SL1 4EE.
5. Desired date from which the licence is to take effect;- 1st April, 1995.
6. The number of generating stations intended to be operated under the licence (if granted);- One
7. A sufficient description adequately specifying the actual or proposed locations of those stations. Descriptions of proposed locations must be sufficient to make clear the nature and extent of the proposed development;- The existing power station at Edinburgh Avenue, Trading Estate, Slough, Berkshire.
8. A description of how those stations will, in each case, be fuelled or driven;- The station consists of 2 boilers fired by gas/oil/coal/refuse derived fuel, 3 boilers fired by gas/oil, 1 gas-turbine driven by gas/oil and 1 waste-heat boiler (associated with the gas-turbine) fitted with supplementary burners fired by gas/oil.
9. *The date when any proposed generating stations are expected to be commissioned;-* The station is in commission as at the date of this application.
10. The capacity and type of each unit within the generating station (MW):- Gas-turbine - 23 MW and four Turbo-alternators of, respectively, 4, 14, 14, and 35 MW.
11. A statement of the extent (if any) to which the applicant considers it necessary for powers under Schedule 3 (compulsory acquisition of land etc.) and under Schedule 4 (other powers etc.) to the Act to be given through the licence for which he is applying:- The applicant hereby applies for such powers in full (considering the same necessary for its operations pursuant to the licence applied for).
12. Details of any licences held, applied for or being applied for by the applicant in respect of the generation, transmission or supply of electricity:- Second Tier Supply Licence granted on 26th March 1991 to supply an area at Slough, extended to additional premises in England and Wales with effect from 1st November 1992, and modified by incorporating the powers and rights under schedules 3 and 4 of the Act with effect from 17th December 1993.

*Signed for and on behalf of the applicant this 28th day of September 1994.*

Dr. P.N. Jackson

Note: A map showing the site of the generating station is lodged at the office of the Director-General of Electricity Regulation at 30/31 Friar Street, Reading, Berkshire, and is available for inspection by the public between 10 a.m. and 4 p.m. on any working day.

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Oct 3 / Sch) · BELGIUM/LUXEMBOURG (Oct 3 / Frs.) · DENMARK (Oct 3 / Kr) · FINLAND (Oct 3 / Mkk) · FRANCE (Oct 3 / Frs.) · GERMANY (Sep 30 / Dm.) · NETHERLANDS (Oct 3 / Fls.) · NORWAY (Oct 3 / Kroner) · SPAIN (Oct 3 / Pts.) · SWEDEN (Oct 3 / Kronor) · SWITZERLAND (Oct 3 / Frs.) · ITALY (Oct 3 / Lire)

[illegible]

## PACIFIC

JAPAN (Oct 3 / Yen) · AUSTRALIA (Oct 3 / Aust$) · HONG KONG (Oct 3 / H.K.$) · MALAYSIA (Oct 3 / MYR) · SINGAPORE (Oct 3 / S$)

[illegible]

## NORTH AMERICA

CANADA

TORONTO (Oct 3 / Can $) 4 pm close

MONTREAL (Oct 3 / Can $) 4 pm close

[illegible]

## AFRICA

SOUTH AFRICA (Oct 3 / Rand)

[illegible]

*Prices supplied by Telekurs*

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ **TOKYO - MOST ACTIVE STOCKS:** Monday, October 3, 1994

| | Stocks Traded | Closing Prices | Change on day | | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|---|---|---|---|
| Nippon Steel | 9.4m | 388 | -2 | JAL | 2.1m | 735 | 2.1m |
| NKK | 3.8m | 287 | -5 | Sumitomo Mtl Ind | 2.1m | 345 | -5 |
| Kawasaki Steel | 3.7m | 445 | -3 | Oki Electric | 1.9m | 781 | +19 |
| Mitsubishi Elec | 3.1m | 713 | +11 | Hitachi | 1.9m | 964 | +8 |
| Mitsubishi Oil | 2.8m | 1100 | +30 | Toshiba | 1.8m | 745 | |

## INDICES

| | Oct 3 | Sep 30 | Sep 29 | 1994 High | 1994 Low |
|---|---|---|---|---|---|
| Argentina General (29/12/77) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Australia All Ordinaries (1/1/80) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| All Mining (1/1/80) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Austria Credit Aktien (30/12/84) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Traded Index (2/1/91) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Belgium BEL20 (1/1/91) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Brazil Bovespa (29/12/83) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Canada Metals & Minls (1975) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Composite (1975) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portfolio (4/1/83) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Chile IPGA Gen (31/12/80) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Denmark Copenhagen SE (3/1/83) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Finland HEX General (28/12/90) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| France SBF 250 (31/12/90) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| CAC 40 (31/12/87) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Germany FAZ Aktien (31/12/58) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Commerzbank (1/12/53) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| DAX (30/12/87) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Greece Athens SE (31/12/80) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Hong Kong Hang Seng (31/7/64) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| India BSE Sens. (1979) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Indonesia Jakarta Comp. (10/8/82) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Ireland ISEQ Overall (4/1/88) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Italy Banca Comm Ital (1972) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| MIB General (4/1/94) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Japan Nikkei 225 (16/5/49) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Nikkei 300 (1/10/82) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Topix (4/1/68) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 2nd Section (4/1/68) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Malaysia KLSE Comp. (4/4/86) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Mexico IPC (Nov 1978) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Netherlands CBS Tot Rtn Gen (End 83) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| CBS All Shr (End 83) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| New Zealand Cap. 40 (1/7/86) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Norway Oslo SE (Ind) (2/1/83) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Philippines Manila Comp (2/1/85) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portugal BTA (1977) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Singapore SES All-S'pore (2/4/75) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| South Africa JSE Gold (28/9/78) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| JSE Ind. (28/9/78) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| South Korea Korea Comp Ex (4/1/80) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Spain Madrid SE (30/12/85) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sweden Affarsvarlden (1/2/37) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Switzerland Swiss Bk Ind (31/12/58) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| SBC General (1/4/87) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Taiwan Weighted Pr (30/6/66) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Thailand Bangkok SET (30/4/75) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Turkey Istanbul Comp. (Jan 1986) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| WORLD MS Capital Int (1/1/70) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| CROSS-BORDER Eurotrack 100 (26/10/90) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Euro Top-100 (26/6/90) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| JCapalOrigns (31/12/88) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Barings Emerg. (7/1/92) | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

■ **CAC-40 STOCK INDEX FUTURES (MATIF)**

| | Open | Sett Price | Change | High | Low | Est. vol. | Open Int. |
|---|---|---|---|---|---|---|---|
| Sep | 1877.0 | 1858.2 | -17.8 | 1890.0 | 1858.0 | 28,230 | 18,071 |
| Oct | 1884.5 | 1860.0 | -4.5 | 1898.0 | 1867.0 | 18,801 | 25,405 |
| Dec | 1899.0 | 1888.5 | -4.5 | 1899.0 | 1878.0 | 121 | 378 |

Open interest figures for previous day.

[illegible]

## US INDICES

| Dow Jones | Sep 30 | Sep 29 | Sep 28 | 1994 High | 1994 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 3843.19 | 3854.63 | 3878.18 | 3978.36 (31/1) | 3593.35 (4/4) | 3978.36 (31/1/94) | 41.22 (2/7/32) |
| Home Bonds | 96.71 | 96.96 | 97.05 | 105.61 (21/1) | 95.43 (13/5) | 109.77 (18/10/93) | 54.99 (1/10/81) |
| Transport | 1491.59 | 1483.54 | 1502.86 | 1862.29 (2/2) | 1483.54 (29/9) | 1862.29 (2/2/94) | 12.32 (8/7/32) |
| Utilities | 181.45 | 180.00 | 178.75 | 227.08 (3/1) | 175.85 (20/9) | 256.46 (31/8/93) | 10.50 (8/4/32) |

DJ Ind. Day's high 3891.30 (3892.64 ) Low 3825.89 (3834.78 ) (Theoretical♦)
Day's high 3875.48 (3876.15 ) Low 3836.61 (3847.90 ) (Actual♦)

| Standard and Poors | Sep 30 | Sep 29 | Sep 28 | 1994 High | 1994 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite ‡ | 462.69 | 462.24 | 464.84 | 482.00 (2/2) | 438.92 (4/4) | 482.00 (2/2/94) | 4.40 (1/6/32) |
| Industrials♥ | 548.18 | 547.42 | 550.18 | 580.63 (15/9) | 510.05 (21/4) | 580.63 (15/9/94) | 3.62 (21/6/32) |
| Financial | 43.12 | 43.16† | 43.51 | 48.94 (14/9) | 41.39 (4/4) | 48.40 (28/9/93) | 8.64 (1/10/74) |
| NYSE Comp. | 255.52 | 255.15 | 256.37 | 267.71 (2/2) | 243.14 (4/4) | 267.71 (2/2/94) | 4.46 (25/4/42) |
| Amex Mkt Val | 458.61 | 455.47 | 458.20 | 487.89 (2/2) | 422.87 (26/6) | 487.89 (2/2/94) | 29.31 (9/12/72) |
| NASDAQ Cmp | 764.29 | 759.34 | 760.02 | 803.93 (18/3) | 693.79 (24/6) | 803.93 (18/3/94) | 54.87 (31/10/72) |

■ **RATIOS**

| | Sep 30 | Sep 23 | Sep 16 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.76 | 2.76 | 2.69 | 2.85 |
| | Sep 28 | Sep 21 | Sep 14 | Year ago |
| S & P Ind. Div. yield | 2.39 | 2.41 | 2.37 | 2.51 |
| S & P Ind. P/E ratio | 20.78 | 20.64 | 20.91 | 27.52 |

■ **STANDARD AND POORS 500 INDEX FUTURES** $500 times index

| | Open | Latest | Change | High | Low | Est. vol. | Open Int. |
|---|---|---|---|---|---|---|---|
| Dec | 463.15 | 464.15 | +0.90 | 464.50 | 462.60 | 69,129 | 206,585 |
| Mar | - | 466.55 | - | - | - | 423 | 7,476 |
| Jun | - | 470.35 | - | - | - | 86 | 2,104 |

Open interest figures are for previous day.

■ **NEW YORK ACTIVE STOCKS**

| Friday | Stocks traded | Close price | Change on day |
|---|---|---|---|
| Telefonos | 3,719,300 | 62⅝ | +¼ |
| USAir | 3,708,900 | 4⅝ | +¼ |
| EMC | 3,637,400 | 20 | +½ |
| Philip Morris | 3,513,400 | 61⅛ | +1¼ |
| Gen Motors | 3,205,600 | 46⅜ | +⅛ |
| Compaq | 3,143,600 | 32⅝ | +¼ |
| Empresa | 3,139,900 | 25⅛ | +¼ |
| RJR Nabisco | 2,872,900 | 6⅞ | - |
| Chrysler | 2,731,200 | 44⅞ | +¼ |
| Nat Med | 2,588,100 | 17⅛ | +¾ |

■ **TRADING ACTIVITY**

● Volume (million)

| | Sep 30 | Sep 29 | Sep 28 |
|---|---|---|---|
| New York SE | 291.902 | 302.110 | 329.849 |
| Amex | 30.459 | 24.843 | 21.433 |
| NASDAQ | 278.095 | 280.856 | 277.071 |
| **NYSE** | | | |
| Issues Traded | 2,858 | 2,854 | 2,860 |
| Rises | 1,288 | 863 | 1,397 |
| Falls | 847 | 1,269 | 795 |
| Unchanged | 723 | 722 | 668 |
| New Highs | 65 | 43 | 52 |
| New Lows | 73 | 94 | 74 |

[illegible] ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1994 High | 1994 Low | Stock | Div | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Chge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 17⅜ | 12¾ | AAR | 0.48 | 3.7 | 21 | 734 | 13 | 12⅞ | 12⅞ | -⅛ |
| 17¾ | 12⅝ | A L Labs A | 0.18 | 1.1 | 39 | 491 | 17⅛ | 16¾ | 17⅛ | +⅛ |
| 78¼ | 57⅝ | AMP | 1.68 | 2.2 | 26 | 1270 | 77¼ | 76⅜ | 76⅜ | -1 |
| 72¾ | 50¾ | AMR | | | 90 | 4325 | 52⅝ | 51¾ | 51¾ | +⅛ |
| 5 | 3⅞ | ARX | | | 13 | 60 | 3⅞ | 3⅞ | 3⅞ | -⅛ |
| 58⅛ | 38⅝ | ASA | 2.00 | 3.8 | 34 | 723 | 52¾ | 52⅛ | 52¾ | -⅜ |
| 31⅞ | 25⅜ | Abbott | 0.76 | 2.4 | 18 | 11026 | u31⅞ | 31⅛ | 31¾ | +⅝ |
| 15¾ | 11⅞ | AbitiBl Pr | 0.50 | 3.4 | 11 | 64 | 15⅛ | 14⅞ | 14⅞ | -⅛ |
| 23⅝ | 17¾ | ABM Ind | 0.52 | 2.5 | | 94 | 21 | 20⅞ | 21 | |
| 16⅛ | 11⅛ | Acpthcain | | | 27 | 144 | u15⅛ | 14¾ | 15 | +⅛ |
| 37 | 22⅜ | ACE Ltd x | 0.44 | 1.8 | 31 | 848 | 26 | 24 | 25 | +1 |
| 12½ | 9⅝ | ACM Gvt In x | 1.09 | 11.2 | | 386 | 9¾ | d9⅝ | 9¾ | +1/32 |
| 10⅛ | 7⅛ | ACM GvOpp x | 0.80 | 11.2 | | 119 | 7¼ | d7 | 7⅛ | +.00 |
| 10⅝ | 7½ | ACM Gvt Sp x | 0.96 | 13.0 | | 415 | 7½ | d7⅜ | 7⅜ | +1/32 |
| 12 | 8⅜ | ACM Gvt Sc x | 1.09 | 12.7 | | 238 | 8¾ | 8½ | 8⅝ | +1/32 |
| 11⅜ | 8¼ | ACM Man x | 1.08 | 13.1 | | 134 | 8⅜ | d8¼ | 8¼ | +.98 |
| 9¼ | 8 | ACM Mgsgd x | 0.72 | 8.7 | | 28 | 8¼ | 8¼ | 8¼ | +1/32 |
| 15½ | 9¾ | AcmeClv | 0.44 | 3.2 | 16 | 124 | 13⅞ | 13½ | 13⅝ | -⅜ |
| 9⅞ | 6½ | Acme Elect | | | 8 | 188 | 9⅜ | 9¼ | 9⅜ | |
| 28¾ | 23 | Acordia | 0.60 | 2.2 | 13 | 2100 | 27⅞ | 27⅜ | 27⅝ | +⅛ |
| 19¾ | 5¾ | Actava | 0.36 | 3.5 | 2 | 333 | 10⅜ | 10⅛ | 10¼ | +⅛ |
| 18½ | 11¼ | Acuson | | | 125 | 322 | 16¼ | 16 | 16¼ | |
| 18⅝ | 16½ | Adams Expr | 0.48 | 2.8 | 0 | 233 | 17⅛ | 17 | 17⅛ | |
| 84 | 46½ | Ad Micro | 3.00 | 5.4 | | 1675 | 60½ | 55½ | 55½ | -4¾ |
| 31¾ | 16¾ | AdvMic | 3.00 | 11.3 | 71 | 50293 | 30¾ | 28⅜ | 28⅜ | -3⅛ |
| 6⅞ | 5 | Advest Grp | 0.16 | 3.1 | 6 | 29 | 5¼ | 5⅛ | 5⅛ | |
| 20 | 15 | Advo Inc x | 0.10 | 0.6 | 115 | 61 | 17⅜ | 16⅞ | 17⅜ | +⅜ |
| 58½ | 48⅜ | Aegon ADR | 1.47 | 2.6 | 12 | 25 | 57⅝ | 57¼ | 57⅝ | -⅜ |
| 65¼ | 44⅜ | Aetna L | 2.76 | 6.0 | 7 | 3750 | 46⅜ | 45¾ | 46⅜ | |

- B -

| 1994 High | 1994 Low | Stock | Div | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Chge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 13 | 8⅞ | BanyMt | 0.05 | 0.4 | 105 | 3320 | u13 | 12⅝ | 12¾ | |
| 53⅞ | 34¼ | Bausch | 0.98 | 2.5 | 15 | 2061 | 39¼ | 39 | 39¼ | +¼ |
| 29¾ | 21⅝ | Baxter | 1.05 | 3.8 | 42 | 4189 | 28⅜ | 28 | 28 | -⅛ |
| 28⅜ | 23¼ | Bay St Gas | 1.46 | 5.8 | 15 | 54 | 25⅛ | 24⅞ | 25⅛ | +⅛ |
| 22½ | 19⅛ | Bd Tr 1838 | 1.72 | 8.5 | | 14 | 20¼ | 20⅛ | 20⅛ | -⅛ |
| 23½ | 15⅝ | Bear Stms | 0.60 | 3.8 | 4 | 4950 | 16⅛ | 15¾ | 15¾ | -¼ |
| 50¼ | 46¼ | BearStPIA x | 3.08 | 6.6 | | 20 | 47 | d46¾ | 46¾ | |
| 37½ | 27¾ | Bearings | 0.64 | 2.1 | 21 | 19 | 30⅞ | 30⅝ | 30⅝ | -¼ |
| 32½ | 23 | Beckman In | 0.40 | 1.4 | 24 | 653 | 29⅝ | 29¼ | 29⅜ | -⅛ |
| 48¼ | 34⅛ | BectnD | 0.74 | 1.5 | 16 | 1418 | u48¼ | 47⅛ | 47¾ | -½ |

- C -

- D -

- E -

- F -

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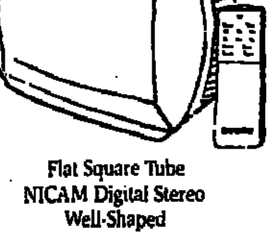
TECHNOLOGY THAT WORKS FOR LIFE

Samsung Passino TV



Flat Square Tube
NICAM Digital Stereo
Well-Shaped

SAMSUNG ELECTRONICS

Continued on next page

4 pm close October 3

# NYSE COMPOSITE PRICES

| 1994 High | Low | Stock | Div | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| Continued from previous page | | | | | | | | | | |
| 9⅛ | 5 | Salant Crp | | | 7 | 130 | 6 | 5⅞ | 6 | +¼ |
| 48⅞ | 32 | Sallie Mae | 1.40 | 4.3 | 8 | 1436 | 32⅞ | 32⅜ | 32⅝ | |
| 13⅞ | 11⅞ | Salomon Br | 0.32 | 2.6 | | 534 | 12½ | 12¼ | 12½ | +¼ |
| 52¾ | 38½ | Salomn | 0.64 | 1.6 | 5 | 1192 | 39½ | 39⅛ | 39⅛ | -¼ |
| 25 | 17½ | SnDgSE | 1.52 | 8.2 | 10 | 289 | 18¾ | 18⅝ | 18⅝ | -½ |
| 10 | 7½ | SantaFeERs | 0.16 | 1.8 | 9 | 2509 | 9¼ | 9 | 9⅛ | -⅛ |
| 17⅞ | 13½ | SFeGd | | | | 14378 | 17¼ | 16¾ | 16⅞ | -½ |
| 40 | 27½ | SantaFePac | 2.80 | 8.4 | 15 | 37 | 33⅝ | 33⅜ | 33½ | +⅛ |
| 14⅞ | 10 | SanFeP | 0.10 | 0.8 | 6 | 6258 | 12⅝ | 12⅛ | 12⅝ | +½ |
| 26 | 19⅞ | SaraLee | 0.64 | 2.8 | 15 | 7100 | 22¾ | 22⅜ | 22¾ | +¼ |
| 50⅛ | 42⅛ | Scana Corp | 2.82 | 6.4 | 11 | 433 | 44⅝ | 44¼ | 44¼ | -⅛ |
| 20½ | 12½ | Scecrp x | 1.00 | 7.5 | 9 | 41042 | 13⅜ | 12⅞ | 13⅜ | +⅜ |
| 41¾ | 31¾ | SchererRP | | | 31 | 132 | 41½ | 40⅞ | 41 | -⅝ |
| 71⅞ | 64½ | SchrPl | 2.04 | 2.8 | 17 | 6397 | u72 | 70½ | 72 | +1 |
| 83 | 50¾ | Schlmb | 1.20 | 2.2 | 23 | 5165 | 55⅞ | 54⅝ | 55⅞ | +1 |
| 39⅞ | 23¼ | Schwab(C) | 0.28 | 1.0 | 13 | 1609 | 29½ | 28⅞ | 29 | -⅝ |
| 10¼ | 6⅛ | Schweitzer | | | 25 | 155 | 9 | 8¾ | 8¾ | -¼ |
| 45¼ | 24⅞ | SciAtl | 0.12 | 0.3 | 80 | 1883 | 41⅝ | 40⅛ | 40⅛ | -¾ |
| 16⅞ | 13 | Scotman x | 0.10 | 0.6 | 15 | 129 | 16⅝ | 16⅛ | 16¼ | -⅛ |
| 65⅞ | 37¼ | ScottP | 0.80 | 1.3 | 16 | 4161 | 61⅝ | 61⅛ | 61⅝ | +½ |
| 28⅝ | 18⅝ | ScuddrNAsF | 0.21 | 0.9 | | 61 | 24⅛ | 24 | 24 | -⅛ |
| 12⅝ | 9½ | ScuddrNEuF | 0.16 | 1.6 | | 134 | 9¾ | d9½ | 9¾ | |
| 18¼ | 13½ | SeaCnB | 0.70 | 4.2 | 8 | 47 | 16½ | 16 | 16½ | |
| 16½ | 14⅞ | SeaC1.4625 | 1.46 | 9.2 | | 2100 | 15⅞ | 15⅞ | 15⅞ | |
| 32⅝ | 28¼ | Seagrm | 0.60 | 2.0 | 39 | 3214 | 30⅝ | 30 | 30½ | +¼ |
| 29¾ | 22¼ | Seagull En | | | 30 | 321 | 23½ | 23¼ | 23¼ | -⅛ |
| 36¼ | 26⅝ | Sealed Air | | | 24 | 19 | 32⅛ | 32 | 32 | -¼ |
| 55⅛ | 42⅛ | SearsR | 1.60 | 3.3 | 7 | 4805 | 48⅛ | 47⅝ | 48⅛ | +⅛ |
| 13¾ | 11¼ | Seligm Sel x | 0.84 | 7.5 | | 72 | 11⅜ | d11¼ | 11¼ | -¼ |
| 39¼ | 26 | Sensormat | 0.22 | 0.6 | 35 | 1284 | 34⅝ | 34 | 34⅜ | +⅛ |
| 39¾ | 26⅝ | SequaA | 0.60 | 2.2 | 6 | 16 | 26⅞ | 26¾ | 26⅞ | |

# NASDAQ NATIONAL MARKET

4 pm close October 3

# AMEX COMPOSITE PRICES

4 pm close October 3

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AMERICA

# Dow eases as NAPM data set the tone

## Wall Street

US stocks were easier inclined yesterday morning as investors reacted to further evidence of a resilient economy, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was off 2.36 at 3,840.83, while the more broadly based Standard & Poor's 500 was down 1.74 at 460.97.

The Nasdaq composite was 3.30 weaker at 760.99, while the American SE composite receded 0.30 to 458.51.

Volume on the Big Board was unimpressive, with just 143m shares traded by early afternoon. Declining issues outnumbered advances by 1,264 to 725.

The negative tone of trading in the first session of the new quarter was set by the monthly survey conducted by the National Association of Purchasing Management. The trade group found that business activity continued to accelerate in September. Its overall index climbed to 58.2 per cent, from 56.2 per cent in the previous month.

In an even more worrying development for the inflation-sensitive bond market, the prices index climbed to a six-year high while the employment component of the survey reached its strongest level since December 1988.

As a consequence, Treasuries backtracked after picking up some early ground. Those gains were struck after the dollar firmed on news of a partial accord reached by US and Japanese trade negotiators at the weekend.

However, the relief on trade could not offset the anxieties over monetary policy. For most of the morning, stocks closely followed the declines in bonds, as investors in both markets saw the day's economic data as more evidence to support suspicions that the Federal Reserve was poised to lift interest rates for the sixth time this year.

Near midday, the Dow industrials demonstrated a measure of independence. The index's minor comeback was mostly a reflection of the continued strength of Alcoa. The stock, which added $1⅛ to $85⅞, has climbed steadily in recent weeks in parallel with raw material prices.

In semiconductors, Micron Technology dropped $1⅛ to $33¾ and Texas Instruments gave back $1⅛ to $67¼. The setbacks followed the release of the third-quarter results of Advanced Micro Devices. AMD declined $1⅞ to $28¼ amid apparent disappointment with net income of 86 cents a share, a 41 per cent improvement on the 1993 period.

On the Nasdaq, CareNetwork surged $13¼ to $24 after Humana agreed to acquire the Milwaukee-based health maintenance organisation in a deal valued at $123m.

Information America jumped $1⅞ to $5⅞ on an agreement to merge with the privately held West Publishing.

## Canada

Toronto was weaker at noon in response to lower precious metals issues and the US National Association of Purchasing Management data.

The TSE 300 composite index fell 11.89 at midday to 4,342.29 in volume of 19.1m shares.

Gold prices, under pressure from the strength of the dollar and Friday's weaker closing, picked up from early lows, but at noon the precious metals index was still 51.42 lower at 10,905.78.

Among actively traded issues, Laidlaw "B" was C$⅛ higher at C$10½ but Bank of Montreal lost C$¼ at C$23½.

### MARKETS IN PERSPECTIVE

| | % change in local currency † | | | | % change sterling † | % change in US $ † |
|---|---|---|---|---|---|---|
| | 1 Week | 4 Weeks | 1 Year | Start of 1994 | Start of 1994 | Start of 1994 |
| Austria | -1.91 | -8.61 | +3.61 | -10.77 | -6.52 | -0.36 |
| Belgium | -1.36 | -7.65 | +1.70 | -10.61 | -5.02 | +1.24 |
| Denmark | -0.65 | -3.77 | +0.58 | -9.20 | -4.89 | +1.38 |
| Finland | +1.26 | -3.60 | +35.50 | +22.22 | +36.55 | +45.54 |
| France | -2.05 | -8.77 | -8.26 | -15.71 | -11.81 | -6.00 |
| Germany | -3.50 | -8.26 | +2.96 | -12.11 | -7.71 | -1.63 |
| Ireland | -1.36 | -8.34 | +12.43 | +0.03 | +3.78 | +10.60 |
| Italy | +1.37 | -0.30 | +11.96 | +11.44 | +14.72 | +22.29 |
| Netherlands | -0.11 | -4.54 | +7.53 | -5.85 | -1.28 | +5.22 |
| Norway | +0.59 | -6.76 | +8.73 | -1.78 | +2.10 | +8.83 |
| Spain | -0.64 | -1.96 | -0.76 | -10.39 | -6.55 | -0.39 |
| Sweden | -1.25 | -4.41 | +7.98 | +1.35 | +5.96 | +12.94 |
| Switzerland | -2.62 | -4.65 | +4.32 | -12.47 | -5.30 | +0.95 |
| UK | -0.30 | -6.41 | -0.45 | -11.19 | -11.19 | -5.34 |
| EUROPE | -1.14 | -5.80 | +1.26 | -9.84 | -6.94 | -0.80 |
| Australia | -0.06 | -4.22 | +4.12 | -6.26 | -4.13 | +2.19 |
| Hong Kong | -1.22 | -3.02 | +28.43 | -19.85 | -24.81 | -19.85 |
| Japan | -0.44 | -3.63 | -2.26 | +8.76 | +15.05 | +22.53 |
| Malaysia | -3.83 | -0.62 | +35.15 | -9.96 | -11.25 | -5.40 |
| New Zealand | -0.41 | -4.04 | +10.96 | -1.21 | -0.24 | +6.33 |
| Singapore | +1.97 | +1.71 | +18.80 | -5.24 | -3.52 | +2.84 |
| Canada | -0.73 | +0.10 | +14.22 | +3.20 | -4.44 | +1.86 |
| USA | +0.73 | -1.71 | +0.66 | -0.52 | -6.67 | -0.52 |
| Mexico | -3.94 | +0.96 | +46.35 | +3.74 | -11.11 | -5.24 |
| South Africa | -1.44 | -3.84 | +55.53 | +16.11 | +9.44 | +16.65 |
| WORLD INDEX | -0.30 | -3.36 | +1.67 | -1.15 | -1.40 | +5.10 |

† Based on September 30, 1994. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited.

**Mexico and Malaysia were the strongest performers among World Index constituents in the third quarter of 1994, each rising by 18.5 per cent; but last week they put on the weakest showing with falls of 3.9 and 3.8 per cent respectively, and in Malaysia's case, profit-taking was the main reason. In Mexico, the biggest single depressant was the assassination of Mr Jose Francisco Ruiz Matthieu, a senior ruling party official; this, says Foreign & Colonial Emerging Markets, has swung investor focus back to the issue of internal political reforms. Senior bourses in continental Europe shuddered as poor half-year results from Alcatel Alsthom threatened the theory that cyclical stocks still had something to offer. Germany, with a heavy cyclicals influence, led the way down with a fall of 3.5 per cent in local curency terms.**

EUROPE

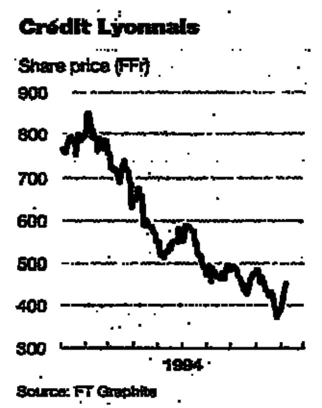
# French stocks in focus move against the trend

The NAPM index of manufacturing activity in the US gave European bond markets an uncomfortable afternoon, confirming an established mood of concern, some pessimism and a general lack of appetite for investment in most equity markets, *writes Our Markets Staff.*

PARIS was already concerned with the lack of scope for further interest rate reductions, and with worries such as the future of the politicians Messrs Longuet and Leotard, said Mr Michael Woodcock, French market analyst at Nikko Europe, as the CAC 40 index fell a further 26.42 to a new 1994 low of 1,852.83.

However, the stocks of the day mostly ran against the trend. In this category, Crédit Lyonnais certificates delivered a rebound of FFr42 or 10.8 per cent to FFr430 after a high of FFr462, and a meeting last Friday between the chairman of the bank, Mr Jean Peyrelevade, and market analysts. The latter said Mr Peyrelevade had been more positive about promised state support.

Thomson-CSF, which owns 19 per cent of Crédit Lyonnais, rose FFr8 or 5.8 per cent to FFr147. At the same time, Chargeurs, the textiles group



Source: FT Graphite

and former CAC 40 constituent which owns 17.5 per cent of BSkyB, shot up FFr77 or 6.3 per cent to FFr1,297 on the latter's flotation plans.

On the downside, LVMH continued its correction, losing FFr30 at FFr842 as trading in its Au Bon Marché, Financière Agache and Arnault et Associés subsidiaries was suspended ahead of an announcement; and Pernod, with results due after hours, dropped FFr13 to FFr291.

ZURICH's attention remained glued to the forthcoming battle between UBS and Mr Martin Ebner's BK Bank, and the SMI index, also taking its lead from lower bourses elsewhere, fell 34.9 or 1.4 per cent to 2,499.5.

UBS bearers declined SFr30 to SFr1,170 and the registered shares, which have five times the voting power of the bearers, slipped SFr20 to SFr283. Late in the day, the Zurich prosecutor's office said it would launch a preliminary inquiry into the possibility of insider trading in UBS shares before the bank announced its plans for a capital restructuring on Friday.

BK Vision, the investment company controlled by BK Bank, dipped SFr100 to SFr1,300. Other so called BK shares, in which BK Vision has substantial holdings, extended Friday's losses. Roche certificates gave up SFr155 to SFr5,630 and Zurich Insurance was SFr37 lower at SFr1,150.

Swiss Re registered picked up SFr18 to SFr644 in continued response to its decision to sell its direct insurance holdings.

Bearers in Elvia, suspended on Friday on the news that the group was being sold to Germany's Allianz, rocketed SFr1,555 or 80.1 per cent to SFr3,475. Allianz has committed itself to offering Elvia's

### FT-SE Actuaries Share Indices

| Oct 3 | | | | | | THE EUROPEAN SERIES | | |
|---|---|---|---|---|---|---|---|---|
| Hourly changes | Open | 11.00 | 11.30 | 12.00 | 13.00 | 14.00 | 15.00 | Close |
| FT-SE Eurotrack 100 | 1314.25 | 1312.02 | 1311.97 | 1312.07 | 1310.15 | 1311.00 | 1311.24 | 1309.82 |
| FT-SE Eurotrack 200 | 1361.38 | 1359.82 | 1361.51 | 1360.10 | 1358.82 | 1359.48 | 1360.35 | 1357.86 |

| | Sep 30 | Sep 29 | Sep 28 | Sep 27 | Sep 26 |
|---|---|---|---|---|---|
| FT-SE Eurotrack 100 | 1318.93 | 1330.58 | 1346.01 | 1340.34 | 1339.05 |
| FT-SE Eurotrack 200 | 1359.89 | 1375.17 | 1388.74 | 1381.39 | 1380.89 |

Base 1000 (26/10/90); High/day: 100 - 1314.25; 200 - 1361.82 Low/day: 100 - 1308.52 200 - 1356.18 † Partial

minority shareholders a maximum price of SFr3,915 per bearer share.

MILAN saw selling accelerate as the day progressed on the view that with the budget proposals now published, and a largely positive string of six-month corporate announcements now concluded, all the good news was now in the market, and political clouds could soon be gathering.

The Comit index fell 12.03 or 1.8 per cent to 667.74 following last Friday's 1.6 per cent drop.

Fiat led the decline with a L189 fall to L6,480. James Capel, which upgraded the stock after last week's substantially better than expected half-year results, commented that in spite of the strong performance of the shares this year – up by almost 40 per cent against the Comit index – the price appeared to be well underpinned by fundamentals and could move ahead in the short term as analysts raised their forecasts.

Banks continued to be hit by continuing gloom over their poor first-half figures. Banco di Napoli fell L152 or 11.5 per cent to L1,498, further hurt by speculation that it might be about to launch a capital increase. BCI lost L156 at L3,730 and Ambroveneto was L219 down at L4,166.

AMSTERDAM was lower on bond market weakness and London's performance and the AEX index shed 3.49 to 398.78.

Scattered issues bucked the trend, however, with Royal Dutch Petroleum up 80 cents to Fl 188, helped by the firmer dollar.

KNP BT closed 80 cents down at Fl 51.20 and brokers expected it to come under further pressure today following news after the market closed that a proposed merger with Ivan Allen, of the US, was not going ahead.

MADRID's bond and equity markets did better than most, the general index for the latter falling 2.77 to 294.69. Dealers said investors were very nervous about trends in other bond markets, and concerned that the real time Ibex equity index would break positively downwards through support at 3,125, after which they thought it might fall to 3,000. As it was, the Ibex bottomed at 3,121.41 before recovering to 3,149.08.

TEL AVIV surrendered 1.8 per cent on profit-taking but this meant little after two days of gains, especially Sunday's 3 per cent advance following the announcement of a partial lifting of the Arab boycott by six Gulf countries. Turnover was low at Shk131m as the Mishtanim index finished 3.41 off at 189.71.

ISTANBUL fell 1.7 per cent on missing signatures from three government ministers of Turkey's draft privatisation bill. The index dropped 451.86 to 26,373.67 after a gain of 4.1 per cent last week.

*Written and edited by William Cochrane and Michael Morgan*

ASIA PACIFIC

# Telecom pressures Nikkei as Taipei remains at high

## Tokyo

A further and accelerated decline in Japan Telecom depressed market sentiment and, in spite of a moderate rise for the Nikkei 225 average, trading volume registered its third lowest figure this year, *writes Emiko Terazono in Tokyo.*

The index ended 86.22 firmer at 19,650.03 after a high for the day of 19,672.53 in the morning session and a low of 19,571.01 in the afternoon. Share prices improved on a higher futures market, but most investors remained inactive.

Volume totalled 158m shares, against 225m. Dealers and public funds held the sidelines, and corporate investors were also absent. Many brokers, hurt by the low trading activity, are hoping for some activity over the next few weeks. Mr Yasuo Ueki at Nikko Securities commented: "It could be the calm before the storm. It is time share prices went either up or down."

The Topix index gained 2.11 at 1,579.00, while the Nikkei 300 edged up 0.56 to 288.95, but declining issues led rises by 471 to 428, with 248 stocks unchanged. In London the ISE/Nikkei 50 index was 0.67 firmer at 1,296.63.

The decline of Japan Telecom to a new low since its listing on September 6 depressed investor confidence. The stock was finally Y110,000 off at Y3.87m after falling to a low of Y3.83m.

The stock's performance is crucial to investor confidence ahead of the listing of Japan Tobacco shares later this month. Payments for the stock by investors who won the lottery for the public offering are due to be made a week from today; but traders expect many investors to waive the purchase if Japan Telecom keeps on falling.

Japan Airlines slipped Y12 to Y735 following reports that the company will record Y45bn in unrealised losses in the first half due to forward exchange rate contracts.

Automobile shares gained ground on strong car sales. The Japan Automobile Dealers Association said car sales in September rose by 6.4 per cent from a year earlier, their fourth consecutive gain. Toyota Motor advanced Y20 to Y2,050 and Honda Motor added Y20 at Y1,670.

Mitsubishi Electric rose Y11 to Y713 after an upward revision of its earnings estimate for the current year, while Mitsubishi Oil put on Y30 at Y1,100 on projections of doubled profits from a year earlier.

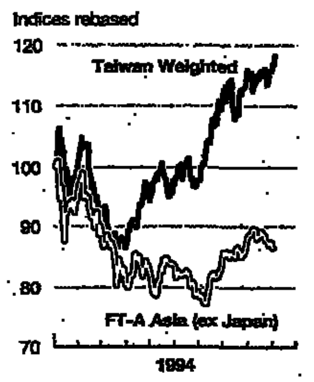
Former state owned companies were lower. Nippon Telegraph and Telephone receded Y9,000 to Y871,000 and East Japan Railway Y7,000 to Y478,000.

In Osaka, the OSE average moved up 11.15 to 21,996.28 in volume of 19m shares.

## Roundup

Pacific Rim markets were subject to mixed influences. Seoul was closed for a public holiday.

TAIPEI posted a second straight four-year high in active trading, led by financials and foods. The weighted index climbed 48.63 to 7,183.75 in turnover of T$64.16bn.



Source: FT Graphite

Financials drew interest after four major banks raised interest rates in response to the central bank's tight grip on liquidity since July. ICBC was up T$2 to T$105 and China Development rose T$2 to T$153.

HONG KONG's Hang Seng index fell below 9,500 at the close, with investors depressed by the outlook for interest rates and the state of the local property market.

The index lost 28.75 at 9,492.49 in turnover that dwindled to HK$2.24bn, the lightest since July 4, and compared with HK$4.32bn on Friday.

Cheung Kong declined 50 cents to HK$37.10 and Sun Hung Kai Properties dipped 75 cents to HK$56.75.

SINGAPORE saw sustained buying by foreign funds which took the Straits Times Industrial index 15.89 higher to 2,348.52.

SYDNEY was mixed in very low volume, with the Labour Day holiday in New South Wales keeping most large investors away. The All Ordinaries index closed 2.3 firmer at 2,030.9.

*Trading activity was dominated* by News Corp, 9 cents lower at A$8.47 following its announcement of an issue of limited voting preference shares.

The resources sector was aided late in the session by a strong performance from the oil and gas sector as shares in Woodside Petroleum moved ahead 20 cents to A$5.20 after it reported a hydrocarbon find in the Dampier sub-basin, offshore western Australia.

WELLINGTON saw late demand for Telecom after an otherwise quiet day. The NZSE-40 Capital index rose 10.93 to 2,077.23 as Telecom picked up 8 cents to NZ$5.35.

KUALA LUMPUR finished lower after a volatile session which saw prices moving in a wide range. The composite index closed 2.41 off at the day's low of 1,127.35, down from a high of 1,136.63.

MANILA edged higher on bargain hunting among issues newly included in the index, and other second liners.

The composite index firmed 7.66 to 2,915.9 as volume increased to 2.7bn shares.

BOMBAY returned to positive territory on sustained speculative buying after last week's downturn, which was triggered by the outbreak of plague. The 30-share BSE index closed 58.46 or 1.6 per cent ahead at 4,339.46. The market lost 175 points last week following the Surat plague, which had claimed 50 lives.

## Golds face testing week

Selected industrials attracted interest in otherwise lacklustre Johannesburg trading, with gold shares expected to face a testing week if bullion fails to rally.

The overall index was 4 softer at 5,672, industrials added 11 at 6,290 and golds receded 17 to 2,425.

De Beers moved ahead 75 cents to R102.50 as its climb continued, but Anglos finished unchanged at R240 and Gencor dipped 10 cents to R14.65.

Barlows was R1.60 better at R30.35 after announcing plans for a $75m bond issue to international investors and saying that it expected strong full-year earnings growth.

Group Five and Group Five Holdings reversed Friday's steady gains, relinquishing 20 cents and 15 cents at R4.80 and R4.60 respectively.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS | FRIDAY SEPTEMBER 30 1994 | | | | | | | | THURSDAY SEPTEMBER 29 1994 | | | | | DOLLAR INDEX | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Figures in parentheses show number of lines of stock | US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | 52 week High | 52 week Low | Year ago (approx) |
| Australia (68) | 170.53 | -0.4 | 160.32 | 106.69 | 137.56 | 153.28 | -0.3 | 3.62 | 171.16 | 160.51 | 106.58 | 137.58 | 153.76 | 189.15 | 142.60 | 142.60 |
| Austria (16) | 184.32 | -0.3 | 173.28 | 115.31 | 148.67 | 148.60 | 0.0 | 1.08 | 184.83 | 173.33 | 115.09 | 148.57 | 148.54 | 198.89 | 167.46 | 169.48 |
| Belgium (37) | 164.66 | -0.3 | 154.80 | 103.01 | 132.81 | 129.62 | 0.1 | 4.25 | 165.22 | 154.94 | 102.88 | 132.81 | 129.51 | 177.04 | 148.42 | 146.42 |
| Canada (103) | 138.31 | -0.1 | 130.03 | 86.53 | 111.56 | 134.35 | -0.3 | 2.50 | 138.52 | 129.90 | 86.25 | 111.34 | 134.89 | 145.31 | 120.54 | 121.72 |
| Denmark (33) | 250.62 | 0.1 | 235.61 | 156.79 | 202.15 | 207.45 | 0.4 | 1.43 | 250.42 | 234.83 | 155.93 | 201.29 | 206.89 | 275.79 | 229.78 | 230.21 |
| Finland (24) | 179.31 | 0.5 | 168.57 | 112.18 | 144.63 | 183.00 | 0.3 | 0.77 | 178.37 | 167.26 | 111.07 | 143.37 | 182.39 | 181.70 | 110.04 | 110.73 |
| France (97) | 165.41 | -0.1 | 155.51 | 103.48 | 133.42 | 137.37 | 0.3 | 3.22 | 165.51 | 155.20 | 103.05 | 133.03 | 136.98 | 185.37 | 159.34 | 167.68 |
| Germany (58) | 137.96 | -1.6 | 129.70 | 86.31 | 111.28 | 111.28 | -1.3 | 1.85 | 140.28 | 131.53 | 87.33 | 112.74 | 112.74 | 150.40 | 127.03 | 127.03 |
| Hong Kong (56) | 392.18 | -1.6 | 368.70 | 245.35 | 316.34 | 389.07 | -1.8 | 3.12 | 399.17 | 374.32 | 248.55 | 320.86 | 396.01 | 506.56 | 305.03 | 305.07 |
| Ireland (14) | 204.84 | -0.9 | 192.58 | 128.15 | 165.23 | 185.25 | -0.6 | 3.45 | 206.63 | 193.77 | 128.66 | 166.09 | 186.28 | 216.60 | 167.75 | 167.75 |
| Italy (59) | 83.88 | -2.0 | 78.85 | 52.47 | 67.66 | 97.72 | -1.6 | 1.58 | 85.60 | 80.27 | 53.30 | 68.81 | 99.35 | 97.78 | 57.88 | 73.57 |
| Japan (469) | 159.58 | -0.4 | 150.03 | 99.84 | 128.72 | 99.84 | 0.0 | 0.77 | 160.28 | 150.31 | 99.80 | 128.84 | 99.80 | 170.10 | 124.54 | 152.34 |
| Malaysia (97) | 559.57 | -0.4 | 526.06 | 350.07 | 451.36 | 552.61 | -0.5 | 1.52 | 562.07 | 527.08 | 349.98 | 451.80 | 555.34 | 621.63 | 417.16 | 417.16 |
| Mexico (18) | 2262.50 | -1.7 | 2126.98 | 1415.42 | 1824.94 | 8411.81 | -1.8 | 1.22 | 2302.16 | 2158.80 | 1433.46 | 1850.46 | 8561.77 | 2647.08 | 1661.23 | 1661.23 |
| Netherland (27) | 209.51 | -0.6 | 196.96 | 131.07 | 169.00 | 166.17 | -0.3 | 3.47 | 210.73 | 197.61 | 131.22 | 169.39 | 166.61 | 218.19 | 184.50 | 184.50 |
| New Zealand (14) | 72.21 | -0.8 | 67.89 | 45.18 | 58.25 | 63.68 | -0.6 | 3.75 | 72.77 | 68.24 | 45.31 | 58.49 | 64.03 | 77.59 | 59.22 | 59.50 |
| Norway (23) | 195.50 | -0.7 | 183.79 | 122.30 | 157.69 | 180.12 | -0.4 | 1.64 | 196.84 | 184.58 | 122.56 | 158.22 | 180.82 | 211.74 | 165.52 | 169.55 |
| Singapore (44) | 377.97 | -0.8 | 355.34 | 236.46 | 304.88 | 258.22 | -1.0 | 1.63 | 380.97 | 357.25 | 237.22 | 306.23 | 260.80 | 380.97 | 294.66 | 298.13 |
| South Africa (59) | 311.63 | -0.4 | 292.96 | 194.96 | 251.36 | 290.84 | 0.8 | 2.21 | 312.87 | 293.39 | 194.81 | 251.48 | 288.58 | 314.24 | 202.72 | 207.91 |
| Spain (42) | 138.81 | -0.9 | 130.50 | 86.84 | 111.97 | 135.21 | -0.5 | 4.25 | 140.07 | 131.35 | 87.22 | 112.59 | 135.93 | 155.79 | 128.88 | 136.87 |
| Sweden (36) | 221.78 | -0.2 | 208.50 | 138.75 | 178.89 | 245.59 | -0.2 | 1.63 | 222.28 | 208.45 | 138.41 | 178.68 | 246.16 | 231.35 | 175.63 | 189.96 |
| Switzerland (47) | 161.66 | -1.3 | 151.97 | 101.13 | 130.39 | 129.06 | -0.9 | 1.88 | 163.83 | 153.63 | 102.01 | 131.68 | 130.28 | 176.56 | 139.55 | 139.55 |
| United Kingdom (204) | 194.11 | 0.7 | 182.48 | 121.44 | 156.58 | 182.48 | 0.9 | 4.17 | 192.79 | 180.79 | 120.05 | 154.97 | 180.79 | 214.96 | 181.11 | 184.90 |
| USA (516) | 188.93 | 0.1 | 177.61 | 118.19 | 152.39 | 188.93 | 0.1 | 2.88 | 188.77 | 177.01 | 117.54 | 151.73 | 188.77 | 198.04 | 178.95 | 187.70 |
| EUROPE (717) | 168.22 | -0.3 | 158.14 | 105.24 | 135.69 | 148.81 | 0.0 | 3.13 | 168.76 | 158.25 | 105.08 | 135.65 | 148.84 | 178.58 | 154.79 | 156.15 |
| Nordic (116) | 216.68 | -0.1 | 203.70 | 135.56 | 174.78 | 204.92 | 0.0 | 1.45 | 216.80 | 203.30 | 135.00 | 174.27 | 204.84 | 222.18 | 173.19 | 179.67 |
| Pacific Basin (748) | 169.30 | -0.5 | 159.17 | 105.92 | 136.56 | 110.78 | -0.1 | 1.09 | 170.19 | 159.60 | 105.97 | 136.80 | 110.93 | 176.98 | 134.79 | 157.37 |
| Euro-Pacific (1465) | 168.72 | -0.4 | 158.62 | 105.55 | 136.09 | 126.08 | -0.1 | 1.95 | 169.46 | 158.91 | 105.52 | 136.21 | 126.19 | 175.14 | 143.88 | 158.76 |
| North America (619) | 185.78 | 0.1 | 174.65 | 116.22 | 149.85 | 185.15 | 0.1 | 2.86 | 185.64 | 174.08 | 115.59 | 149.22 | 185.02 | 192.73 | 175.87 | 183.62 |
| Europe Ex. UK (513) | 150.64 | -0.9 | 141.62 | 94.24 | 121.51 | 126.82 | -0.6 | 2.52 | 152.01 | 142.55 | 94.65 | 122.19 | 129.57 | 158.12 | 135.94 | 137.84 |
| Pacific Ex. Japan (279) | 263.36 | -1.0 | 247.59 | 164.76 | 212.43 | 234.40 | -1.0 | 2.77 | 265.91 | 249.36 | 165.57 | 213.74 | 236.69 | 296.21 | 206.62 | 206.62 |
| World Ex. US (1645) | 170.71 | -0.5 | 160.48 | 106.80 | 137.69 | 129.92 | -0.1 | 1.96 | 171.47 | 160.80 | 106.77 | 137.83 | 130.04 | 176.65 | 145.58 | 157.05 |
| World Ex. UK (1957) | 173.94 | -0.4 | 163.52 | 108.82 | 140.30 | 144.64 | -0.1 | 2.08 | 174.56 | 163.69 | 108.69 | 140.31 | 144.83 | 178.69 | 155.96 | 164.47 |
| World Ex. So. Af. (2102) | 174.86 | -0.3 | 164.39 | 109.39 | 141.04 | 147.06 | 0.0 | 2.28 | 175.31 | 164.40 | 109.16 | 140.92 | 147.12 | 180.03 | 158.54 | 166.10 |
| World Ex. Japan (1692) | 186.35 | -0.2 | 175.19 | 116.58 | 150.31 | 176.45 | -0.1 | 2.92 | 186.69 | 175.07 | 116.25 | 150.06 | 176.55 | 185.20 | 175.60 | 175.60 |
| The World Index (2161) | 175.73 | -0.3 | 165.20 | 109.94 | 141.74 | 148.12 | 0.0 | 2.28 | 176.18 | 165.21 | 109.70 | 141.62 | 148.16 | 180.80 | 158.85 | 166.26 |

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Constituent changes with effect 8/10/94: Addition: Santa Fe Pacific Gold (USA). Constituent change 3/10/94: Name change: Onoda Cement Co to Chichibu Onoda Cement Corp (Japan). Latest prices unavailable for this edition.


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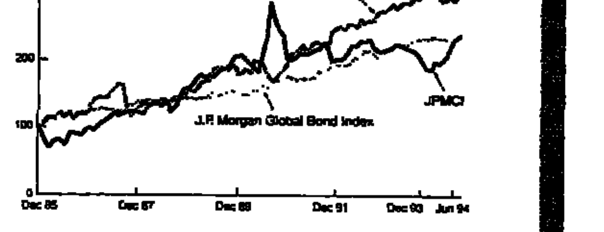
Solid returns


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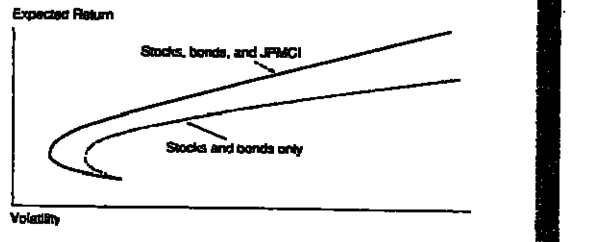

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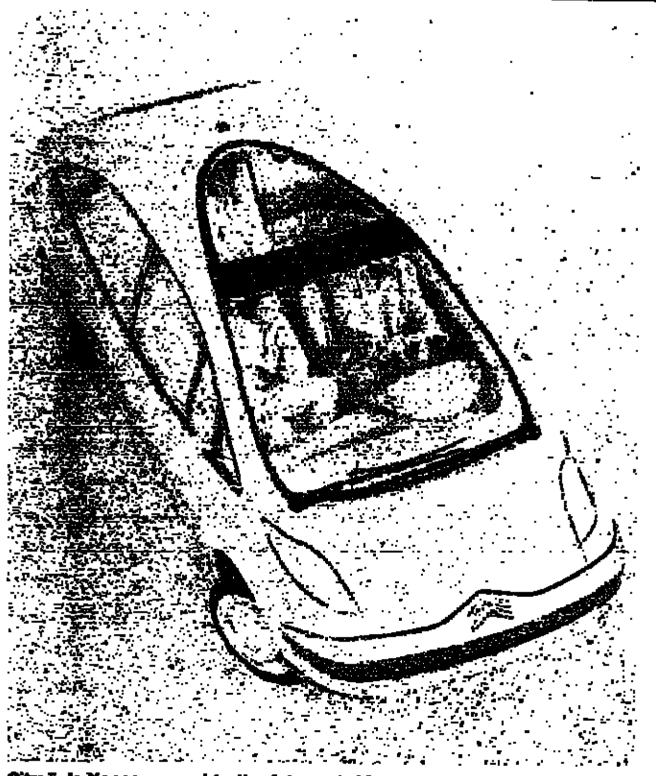
FINANCIAL TIMES SURVEY

# WORLD CAR INDUSTRY

Tuesday October 4 1994



Citroën's Xanae: a road to the future at this week's Paris motor show

Opel/Vauxhall Tigra: set to enter a new niche in Europe

**Kevin Done finds that, as the existing order begins to disintegrate, vehicle producers are being forced to embark on radical restructuring of their operations**

## Car producers race for global presence

The US will overtake Japan this year to become the world's top vehicle producing nation for the first time since 1979. The existing order is changing rapidly, and the world's carmakers are having to cope with an era of unprecedented upheaval, as the auto industry becomes a truly global business.

Japanese vehicle output has declined under the impact of three successive years of recession in the domestic market, falling from 13.5m in 1990 to 11.2m last year.

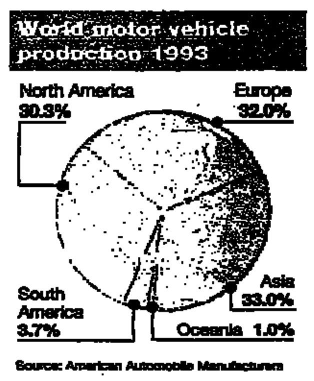
At the same time US production has grown from 8.8m in 1991 to 10.9m last year in response to the strong recovery in North American new vehicle demand. The diverging trends have continued this year.

Alongside the changing fortunes of the two leading producing countries, however, another important development is taking place.

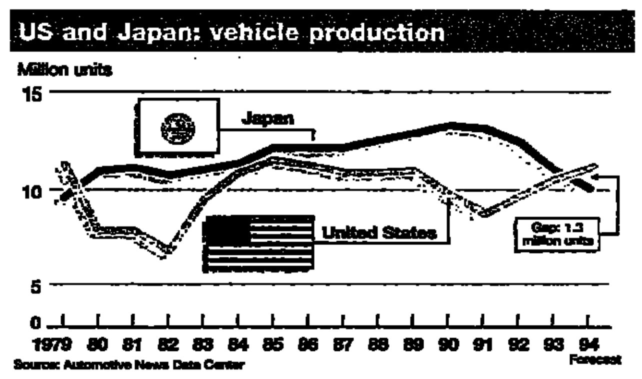
Japanese vehicle manufacturers have transferred more and more production out of Japan during the past decade, first to North America, and more recently to Europe and to south-east Asia, contributing to a significant shift of production capacity. The new ascendancy of the US as a vehicle production force owes much to the Japanese vehicle makers themselves.

The Big Three US car producers General Motors, Ford and Chrysler have themselves restructured in drastic fashion in recent years to regain world competitiveness. Their fortunes have revived, but their domestic hegemony is under challenge. About 15 per cent of US vehicle production is now coming from Japanese carmakers' plants (either wholly-owned or in joint ventures) compared with none little more than a decade ago.

Japanese carmakers now operate 11 assembly plants and three engine plants in North America. Honda is one of the main US car exporters. Since the early 1980s the Japanese have built in the US an auto industry larger than that of Britain Italy or Spain and almost the size of the French industry. Similar developments are under way in Europe. Japanese producers currently account for about a quarter of UK car production. Last year Nissan became the leading UK car exporter.




Source: American Automobile Manufacturers




Source: Automotive News Data Center

Economic pressures and the appreciation of the yen are hastening the Japanese expansion overseas, and in recent weeks both Toyota and Honda have announced plans to expand further their production bases in North America.

Honda is increasing its car assembly capacity in the US and Canada from 610,000 to 720,000 a year by 1997, and it will begin assembly in Mexico next year. It is planning to increase its exports from the US and Canada to more than 150,000 a year by 1999.

It is already unchallenged as the leading US car exporter to Japan, selling four times more US-built cars in Japan than its nearest American rival, GM, in the first seven months this year. Honda does not disclose the cost differences between its Japanese and its US-built cars, but it admitted recently that "at the current exchange rate the North American vehicles are far more profitable".

The race for global scale in the auto industry has been engaged in earnest, and the challenge is eliciting dynamic and surprising responses, that are breaking accepted moulds in the world industry.

Ford, the world's second largest vehicle maker, has embarked this year on a sweeping restructuring of its global organisation in the most radical shake-up in its 91-year history. By the end of December it plans to have merged its European and North American automotive operations and its automotive components group into a single operating unit, Ford Automotive Operations.

The restructuring is aimed at optimising Ford's resources, at eliminating the duplication of effort in Europe and in North America and at preparing for future growth. The group is seeking to achieve "the lowest possible coefficient of bureaucratic drag," says Alex Trotman, Ford chairman and chief executive. He claims that the simplification of engineering, purchasing, and technical and other processes will substantially reduce operating costs and could lead to savings of at least \$2bn-\$3bn a year by the end of the decade.

The Volkswagen group, Europe's biggest vehicle maker, is also going through corporate turmoil, as it seeks to staunch record losses and to shed its unenviable position as the highest cost producer in Europe.

In a radical restructuring of its new car development and engineering operations it is planning to reduce the number of basic chassis platforms – from which all its car ranges are derived – from a present total of 16 to only four by the early years of the next decade in order to cut costs and simplify its global manufacturing activities.

The strategy will embrace all four makes in the group, Volkswagen, Audi, Seat and Skoda, and will eventually have a big impact on its global manufacturing operations from Germany to Spain, the Czech Republic, Brazil, Mexico, China and South Africa.

Mercedes-Benz, perhaps the world's most prestigious maker of luxury cars, has embarked on a fundamental re-alignment of its new product strategy. By the late 1990s the company will have launched a range of vehicles into new segments of the world market including a four-wheel drive sport/utility vehicle to be assembled in a new plant in the US, a small family car, sized between a Volkswagen Golf and a Ford Fiesta, and most surprisingly a micro compact car, a two-seater car for urban commuting that it is developing in a joint venture with SMH, the Swiss maker of Swatch watches.

Inevitably the restructuring in the world auto industry is also leading to new alliances and mergers, although the progress is not always smooth.

In a further concentration of the European auto industry BMW of Germany took over the Rover group, the leading UK vehicle maker, from British Aerospace earlier this year in an £800m deal, which has doubled its production volume. The much-heralded alliance of Renault, the French state-owned carmaker, and Volvo of Sweden collapsed, however, leaving both companies to look for other partners.

In the scramble for global position the world's leading carmakers are also having to fight to establish a presence in the world's newly emerging markets.

The industry is united in the view that the Asia Pacific region holds the brightest prospects, and automotive sales in Asia (excluding Japan) are expected to triple during the next 15 years.

According to Mr Trotman around 80 per cent of the world's population lives outside the traditional automotive markets of west Europe, North America and Japan, but the number of cars and trucks sold in these regions represents only about 8 per cent of the world's total.

For a long time the US vehicle makers – as well as the Europeans – neglected Asian markets allowing them to become largely the preserve of their Japanese rivals, but belatedly they are seeking to regain lost ground.

General Motors of the US, the world's leading vehicle maker, for example, is using Opel, its German subsidiary to spearhead its expansion into international car markets outside North America and in particular into Asia. Assembly of Opel cars began in Taiwan last year, production has started in Indonesia this year and will begin in India in the third quarter of 1995.

The world's leading vehicle makers are queueing up to establish assembly projects in China, where Volkswagen of Germany and the PSA Peugeot Citroën group of France have stolen a lead. In general, the European car industry has been far more parochial and dependent on its home market than its US and Japanese rivals, but it, too, is now on the move with new production projects under development in the US, Latin America and Asia.

For now, it is the Big Three US carmakers, GM, Ford and Chrysler that are earning record profits, while their European and Japanese rivals struggle to emerge from losses and recession. Behind the fluctuating trade cycles and volatile financial returns, however, all three regions' carmakers are struggling with the same issue of how to build a global presence in the world car market.

### IN THIS SURVEY

**Overviews:**



**Features:**



**Markets:**



**Profiles:**



Can you paint a car with 90% water and still get a better finish?

Automobiles have an environmental effect long before they take to the road. Solvents used in spraying on a high quality, durable paint finish can contaminate the air.

That's why the engineers of a renowned worldwide car maker insist on environmentally-friendly paints, which reduce solvent content significantly. But they wanted a safer, more efficient application system, too. ABB Paint Finishing designed and installed manual and robot spray booths with advanced ventilation control. Recirculating air is continually scrubbed clean of paint residue, which is extracted for recycling. This complex environmental control system has reduced solvent emissions by about 1.4 kilograms per car, without compromising paint finish quality.

ABB also serves the automotive industry with robotic systems, drives, Quintus fluid cell presses and test rigs. As a leader in electrical engineering for industry and transportation, and in the generation, transmission and distribution of power, ABB is committed to industrial and ecological efficiency worldwide. We transfer know-how across borders with ease. But in each country, ABB local operations are decentralized and flexible. That means we can respond swiftly and surely to environmental challenges which stretch the limits of the possible – like getting a better paint finish while using less solvent – in close partnership with our customers.

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## WORLD CAR INDUSTRY 2

While global sales are at last improving, the Asia Pacific region holds the most promise, says **Kevin Done**

# East offers best outlook for growth

Global car sales could rise by 6 per cent or more this year as Europe pulls out of recession to join the expanding markets of North America, Latin America and the Asia Pacific region.

Car sales worldwide fell to 33.1m in 1993, the lowest level for six years, but according to DRI McGraw-Hill, the automotive analysts, demand has now *moved into a period of recovery.*

After three successive years of decline, global car sales are forecast to rise to 35.3m in 1994. The main impulses for growth hitherto have come from the US, where sales of cars and light trucks are now in the third year of recovery and are forecast to rise by 12 per cent this year to more than 15.5m.

New car sales in western Europe fell by more than 15 per cent last year to 11.45m, the sharpest annual decline in the post-war period, but the tide appears to have turned with sales rising by an estimated 6 per cent to 8.517m in the first eight months of the year.

In Japan carmakers have been locked in a protracted recession with new car sales falling for three years in succession from 1991 to 1993. Registrations after the first seven months of 1994 were still 1.9 per cent lower than in the corresponding period a year ago, but in recent months there have been fragile signs that *the bottom of the recession has* also finally been reached in Japan.

Noël Goutard, chairman and chief executive of Valeo, the leading French automotive components group, believes that prospects are positive for the world auto industry.

"In 1994 we are in a new phase, and we anticipate strong growth," says Mr Goutard.

"We believe that by 1995-96 the American, European and Japanese markets will be in a unique situation with all three converging on a path of strong growth. Asia Pacific will join as a fourth important region. There will be four markets in high gear."

The latest study by DRI McGraw-Hill forecasts that a sustained period of growth is in prospect with worldwide new car sales rising gradually to reach record levels throughout the second half of the 1990s. Sales are forecast to rise by 3 to 5 per cent in each of the next five years, rising from 35.3m this year to 42.6m in 1999.

However, much of this growth will originate outside the traditional car consuming nations of west Europe, North America and Japan, with South Korea, China, Thailand, Latin America and east Europe offering the best outlook for growth for the 1990s and beyond.

The world's leading carmakers are united in the view *that the Asia Pacific region* holds the brightest prospects, and automotive sales in Asia (excluding Japan) are expected to triple during the next 15 years.

According to Alex Trotman, chairman and chief executive of Ford, the world's second largest vehicle maker, about 80 per cent of the world's population lives outside the traditional automotive markets of western Europe, North America and Japan, however the number of cars and trucks sold in these regions represents only about 8 per cent of the world's total.

Some of the fastest growth is forecast for China, where the world's leading carmakers, such as General Motors, Ford, Toyota and Mercedes-Benz are vying to win approval for new vehicle projects in order to catch up on the lead taken by Volkswagen of Germany, the Peugeot group of France and Daihatsu of Japan.

New car sales in China have already jumped from only 78,000 in 1990 to about 430,000 last year, but the latest DRI study forecasts that sales could jump to 1m by 1999.

This will be mirrored in a rapid build-up of car production in China with output rising from 44,000 in 1990 to more than 700,000 by the end of the decade, according to the DRI study.

South Korean carmakers led by Hyundai, Kia and Daewoo have also developed an ambitious strategy for further growth in the coming decade.

DRI forecasts that car production in South Korea could jump by more than 1m units in the next six years from 1.5m in 1993 to 2.64m in 1999.

New car sales in the domestic car market are expected to jump from 963,000 last year to 1.45m in 1999, but domestic expansion will be supplemented by Korean carmakers pursuing aggressive growth plans overseas both through strongly rising exports and foreign-based vehicle production.

In the world's developed markets the DRI report forecasts continued steady recovery in west Europe for the rest of the decade, cautious expansion in Japan but a slow-down in North America during the mid-1990s.

The pick-up in west Europe has been patchy this year with sales rising strongly in France, Spain, Scandinavia and the UK, whereas Germany and Italy are still struggling to throw off the grip of recession.

New car registrations in Germany, *the biggest market in* Europe, were still running slightly lower than a year ago after the first eight months of the year with a decline of 0.4 per cent. Worryingly, sales declined year-on-year by 4.9 *per cent* in July and by 5.2 per cent in August.

Both the German and Italian markets are forecast to emerge from recession next year, however, and sales in west Europe are forecast to rise by 5 to 7 per cent a year in each of the four years from 1994 to reach a record level of 13.7m in 1998 rising further to 15m by 1999.

In the US, with car and truck sales already in their third year of recovery, opinions *differ over when the market will peak.*

Ford is currently forecasting total US car and truck sales of around 15.5m in 1994 compared with 14.2m last year and the nadir of 12.5m in 1991.

The previous peak of 16.3m was reached in 1986 and David McCammon, Ford *vice-president and treasurer, insists that* "the cycle still has several years to go. We are early in the cycle in the US – still in the first half of the cycle, in my view, and in Europe we're just at the beginning of the recovery".

Such optimism has not been shared by US financial markets in recent weeks, where the share prices of the big three US carmakers have fallen sharply to their lowest level for the year amid fears about rising interest rates.

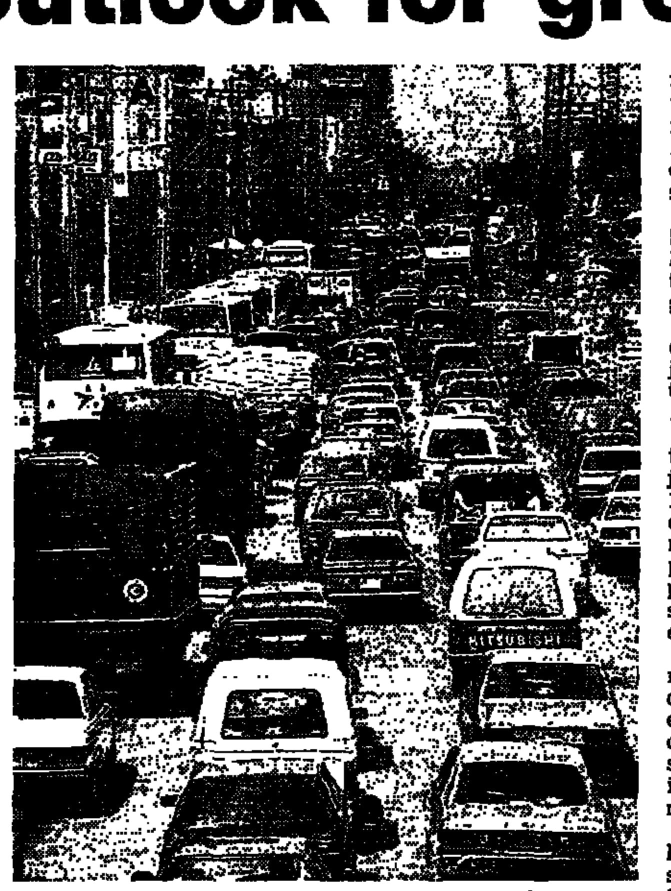
The latest DRI forecast suggests that North American car sales will suffer small declines in 1995 and 1996 after rising by 8.5 per cent this year. Cars are expected to continue losing market share to light trucks – pickups, sports/utility and multipurpose vehicles – which now account for more than 40 per cent of all US light vehicle sales.

**World car sales forecast (000s)***

| | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| WORLD | 33,134 | 35,253 | 36,377 | 38,042 | 39,903 |
| West Europe | 11,450 | 12,181 | 12,743 | 13,692 | 14,362 |
| Germany | 3,194 | 3,215 | 3,306 | 3,425 | 3,636 |
| Italy | 1,890 | 1,858 | 1,948 | 2,075 | 2,191 |
| UK | 1,778 | 1,978 | 2,074 | 2,236 | 2,303 |
| France | 1,721 | 1,989 | 2,051 | 2,184 | 2,302 |
| Spain | 743 | 849 | 867 | 1,056 | 1,054 |
| East Europe** | 1,334 | 1,366 | 1,472 | 1,550 | 1,675 |
| Turkey | 443 | 232 | 287 | 331 | 420 |
| North America | 9,441 | 10,245 | 9,950 | 9,779 | 10,150 |
| US | 8,702 | 9,424 | 9,044 | 8,822 | 9,147 |
| Japan | 4,199 | 4,203 | 4,398 | 4,626 | 4,780 |
| Asia Pacific† | 2,846 | 3,155 | 3,509 | 3,831 | 4,027 |
| South Korea | 963 | 1,072 | 1,167 | 1,256 | 1,315 |
| China | 430 | 481 | 618 | 758 | 791 |
| Latin America | 1,987 | 2,051 | 2,058 | 2,216 | 2,404 |
| WORLD (net)†† | 33,887 | 35,059 | 36,554 | 38,550 | 40,203 |
| West Europe | 11,372 | 12,102 | 12,847 | 13,823 | 14,206 |
| Germany | 3,794 | 3,946 | 4,036 | 4,310 | 4,391 |
| France | 2,836 | 2,996 | 3,138 | 3,332 | 3,384 |
| Spain | 1,505 | 1,661 | 1,776 | 1,801 | 1,808 |
| UK | 1,375 | 1,433 | 1,565 | 1,640 | 1,916 |
| Italy | 1,117 | 1,213 | 1,314 | 1,457 | 1,558 |
| East Europe** | 1,800 | 1,780 | 1,920 | 2,100 | 2,294 |
| Turkey | 348 | 234 | 258 | 297 | 375 |
| North America | 7,329 | 7,961 | 7,968 | 7,756 | 8,042 |
| US | 5,982 | 6,745 | 6,750 | 6,463 | 6,660 |
| Japan | 8,499 | 7,942 | 8,266 | 8,723 | 9,018 |
| Asia Pacific† | 2,807 | 3,154 | 3,542 | 3,914 | 4,342 |
| South Korea | 1,512 | 1,791 | 1,962 | 2,150 | 2,389 |
| China | 241 | 216 | 335 | 451 | 563 |
| Latin America | 2,214 | 2,423 | 2,339 | 2,603 | 2,851 |

*1993 actual, 1994-1997 forecasts
††Excluding traceable double counting
**Including Commonwealth of Independent States
†Excludes Japan

Source: DRI World Car Industry Forecast Report – August 1994



Traffic in Bangkok: Asian automotive sales are expected to rise rapidly

Fast-expanding South Korea has joined Japan as a source of worry for western carmakers, says **Kevin Done**

# Fertile ground for conflict

The automotive industry is already providing fertile ground for trade con*flict between Japan on the one* hand and the US and the European Union on the other. Now, however, South Korea has become a new source of concern for western carmakers.

The US trade deficit in automobiles and automotive parts with Japan remains high and rose to a record $33.4bn last year accounting for 56 per cent of the total US trade deficit with Japan. The EU's trade deficit with Japan in motor vehicles – Ecu5.12bn (£4.02bn) – accounted last year for 20.4 per cent of the its total trade deficit with Japan. This was almost offset, however, by a Ecu4.3bn surplus on vehicle trade last year with the US.

While recent developments such as the strong increase in sales of imported cars in Japan this year, increasing purchases of US auto parts by Japanese vehicle makers – both for their US and domestic assembly plants – and the continuing fall in the volume of Japanese vehicle exports, suggest that the trade imbalance between the US and Japan could be reduced, in practice the problems remain intractable.

During the eight years that the US Commerce Department has been keeping records on trade in vehicles and parts, the US automotive deficit with Japan has proved resistant to all efforts to reduce the imbalance. The deficit, which totalled $32.6bn in 1986 fell slightly to $30.5bn in 1990 but by last year it had risen again to $33.4bn.

The inclusion 15 months ago of automotive components in the framework trade talks between the US and Japan has yielded little other than increased tension between the two sides. The US deficit in automotive components trade with Japan rose to $11.2bn last year, a tenfold increase from the 1981 level.

Japanese carmakers warned recently that they would urge the Japanese government to pursue Gatt actions including rights to compensation and sanctioned retaliation, if the US were to impose sanctions under the Super 301 trade law *in the case of a breakdown in* the framework trade negotiations.

William Duncan, general director of the Japan Automobile Manufacturers Association (JAMA) in Washington, said that the short-term consequences of an auto trade conflict would mean "economic disruption, loss of employment and ultimately slower growth and higher consumer costs".

The US auto industry on the other hand has called on Washington to take whatever *steps it deems necessary to* prod Japan to open its market, but it has recently stopped short of calling for sanctions.

"We would like to see an open market in Japan, and we want the consumers in Japan to have the same opportunities consumers in America have," said Andrew Card, president of the American Automobile Manufacturers Association, last month.

Japanese carmakers have resisted calls for the setting of numerical targets in trade between the US and Japan. "I feel there is no need for targets, because I have no doubt that if the US auto parts are of high enough quality, reasonably priced and with good delivery records, then Japanese automakers will buy them," said Tatsuro Toyoda, president of Toyota and chairman of JAMA in a recent interview.

The US believes that Japan gave a commitment during the visit by former President George Bush to Tokyo in January 1992 to buy $19bn worth of automotive components – $4bn for imports and $15bn for purchases by Japanese vehicle plants in the US – in the year to the end of March 1995. JAMA maintains, however, that the figure of $19bn was based on the voluntary plans of individual carmakers and was not a government target. Total purchases rose last year to $15.5bn and have doubled in the past four years from $7.12bn in the year to March 1990.

In Europe, meanwhile, Japan is seeking to raise its quota for car and light commercial vehicle exports to the EU as a result of higher than expected demand in Europe.

In March, Tokyo and Brussels set a guideline under the joint monitoring scheme allowing Japanese vehicle exports to the EU to rise by 0.4 per cent to 984,000 in 1994. In the first eight months, however, new car sales in west Europe have risen by 6 per cent, and Tokyo now wants to raise the level of its shipments. Direct Japanese vehicle exports to the EU fell last year by 18.4 per cent to 980,000 under the impact of the deep recession in the new vehicle market.

Concerns are also being voiced in Brussels and Washington over growing imbalances in vehicle trade with South Korea, which is increasing greatly its domestic production capacity.

Last year imports accounted for only 0.19 per cent of Korea's car market. Hyundai, the leading Korean carmaker, alone plans nearly to double its European sales from less than 100,000 last year to 189,000 by the end of the decade.

**World's top 10 vehicle makers**

| Rank | Manufacturer | Passenger cars | Total vehicles |
|---|---|---|---|
| 1 | General Motors – US | 4,989,938 | 6,865,828 |
| 2 | Ford – US | 3,685,415 | 5,744,294 |
| 3 | Toyota – Japan | 3,549,840 | 4,487,891 |
| 4 | Volkswagen – Germany | 3,119,997 | 3,285,695 |
| 5 | Nissan – Japan | 2,222,985 | 2,898,185 |
| 6 | PSA – France | 2,252,121 | 2,437,726 |
| 7 | Renault – France | 1,929,858 | 2,264,331 |
| 8 | Chrysler – US | 727,928 | 1,982,676 |
| 9 | Fiat – Italy | 1,557,556 | 1,800,400 |
| 10 | Honda – Japan | 1,629,666 | 1,762,197 |

Source: American Automobile Manufacturers Association

**US auto industry January-December 1993**

| | Volume (Units) | Volume Change(%) | Share (%) Jan-Dec 93 | Share (%) Jan-Dec 92 |
|---|---|---|---|---|
| CAR SALES | 8,518,000 | +3.7 | 100.0 | 100.0 |
| Imports | 1,844,000 | -7.5 | 21.7 | 24.3 |
| Japanese makes | 2,481,000 | +0.4 | 29.1 | 30.1 |
| -of which US-built | 1,265,000 | +9.0 | 14.9 | 14.1 |
| Japanese derived* | 2,889,000 | +0.2 | 34.0 | 35.2 |
| European makes | 308,000 | -6.9 | 3.6 | 4.0 |
| CAR PRODUCTION | 5,982,000 | +5.4 | 100.0 | 100.0 |
| -of which Japanese US-built† | 1,516,000 | +7.0 | 25.4 | 25.0 |
| CAR SALES BY MANUFACTURER: | | | | |
| General Motors** | 2,909,000 | +2.3 | 34.2 | 34.6 |
| Ford** | 1,878,000 | +8.7 | 22.1 | 21.6 |
| Chrysler | 834,000 | +22.7 | 9.8 | 8.3 |
| Toyota/Lexus | 742,000 | -2.4 | 8.7 | 9.3 |
| Honda/Acura | 716,000 | -8.8 | 8.4 | 9.4 |
| Nissan/Infiniti | 482,000 | +16.5 | 5.6 | 5.0 |
| Mazda | 260,000 | +4.7 | 3.1 | 3.0 |
| Mitsubishi | 168,000 | +7.8 | 2.0 | 1.9 |
| Hyundai | 109,000 | +0.2 | 1.3 | 1.3 |
| BMW | 78,000 | +18.8 | 0.9 | 0.8 |
| Volvo | 73,000 | +7.4 | 0.9 | 0.8 |
| Mercedes-Benz | 62,000 | -2.2 | 0.7 | 0.8 |
| Volkswagen/Audi | 56,000 | -35.8 | 0.7 | 1.1 |
| Saab (GM) | 19,000 | -29.0 | 0.2 | 0.3 |
| Jaguar (Ford) | 13,000 | +46.7 | 0.1 | 0.1 |
| Porsche | 3,700 | -9.4 | 0.0 | 0.0 |
| Alfa Romeo (Fiat) | 1,300 | -53.1 | 0.0 | 0.0 |
| LIGHT TRUCK SALES | 5,398,000 | +15.5 | 100.0 | 100.0 |
| Imports | 389,000 | -2.9 | 7.2 | 8.6 |
| TOTAL CAR&LIGHT TRUCK SALES | 13,917,000 | +8.0 | 100.0 | 100.0 |
| General Motors** | 4,667,000 | +6.1 | 33.5 | 34.1 |
| Ford** | 3,562,000 | +11.6 | 25.6 | 24.8 |
| Chrysler | 2,048,000 | +19.5 | 14.7 | 13.3 |
| Japanese makes | 3,212,000 | +2.4 | 23.1 | 24.3 |
| Toyota/Lexus | 1,033,000 | +0.9 | 7.4 | 7.9 |
| Nissan/Infiniti | 688,000 | +17.2 | 4.9 | 4.5 |
| NORTH AMERICAN CAR & TRUCK PRODUCTION†† | 13,095,000 | +11.5 | 100.0 | 100.0 |
| -of which US | 10,854,000 | +11.1 | 82.9 | 83.1 |
| -of which Canada | 2,241,000 | +13.2 | 17.1 | 16.9 |
| -of which Japanese Nth.Am.built† | 2,150,000 | +6.6 | 16.4 | 17.2 |

*Includes Japanese makes plus Japanese derived cars sold under GM, Ford & Chrysler badges, imports and US-built.
**GM excludes Saab. Ford excludes Jaguar
†Includes US/Japanese joint ventures managed by Japanese producers.
††Includes medium and heavy trucks.
Source: Automotive News

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**Kevin Done** follows developments in the European car industry

# A formidable challenge still

The European car industry is in the midst of hectic transition, as the European Union moves to become an open car market by the end of the decade.

All restrictions on car and light commercial vehicle imports from Japan are due to be removed at the end of 1999, and carmakers in Europe are being forced to act quickly to close the competitive gap behind their Japanese and North American rivals.

The pain and dislocation of transition has been compounded by the severity of the recession that struck the industry with full force last year, as west European new car sales fell by more than 15 per cent to 11.4m, the lowest total for eight years and the biggest year-on-year decline in the post-war period.

Four of the Big Six volume car producers in west Europe, the Volkswagen group of Germany, PSA Peugeot Citroën of France, the Fiat group of Italy and Ford of Europe, were in loss last year, while profits fell sharply at Renault of France and General Motors Europe (Opel in continental Europe and Vauxhall in the UK).

New car sales have begun to flicker back to life this year, and the financial performance of the industry is starting to recover, but the underlying challenge remains formidable.

Several of the first wave of Japanese car plants in west Europe – built by Nissan, Toyota and Honda – have started production, adding to existing overcapacity and a fourth Japanese plant – a joint venture in the Netherlands between Mitsubishi Motors and Volvo of Sweden – is due to open next year.

The share taken by Japanese carmakers in west Europe may be down this year – to 11 per cent in the first six months from 12.4 per cent in the corresponding period a year ago – as their price competitiveness has been battered by the rapid appreciation of the yen, but it is likely to be only a temporary respite.

Japanese carmakers' west European market share is still *forecast to rise to more than 15* per cent by the end of the decade, and their presence in those European markets that have previously operated with*out restrictions on Japanese* vehicle imports, serves as a constant reminder of the threat.

In the Netherlands Japanese carmakers controlled 25.9 per cent of the new car market last year, for example, and in Finland 36.5 per cent.

Competition for the European carmakers is also growing from new sources, most notably South Korea and North America.

*Kia Motors is to become the* first Korean carmaker to assemble passenger vehicles in Europe in a project to build up to 30,000 vehicles a year in Germany.

Kia established sales operations in many European markets for the first time last year, and it will be followed in 1995 by Daewoo, the third largest Korean vehicle maker. Hyundai, the leading Korean vehicle producer, says that it is aiming nearly to double its European sales from less than 100,000 last year to 189,000 by the end of the decade.

North America is also becoming a growing source for vehicle exports to Europe both from the big three US carmakers and from the expanding Japanese production base in the US and Canada.

A recent study by the Economist Intelligence Unit forecast that North American and South Korean manufacturers would almost treble their sales in west Europe by 2000, with US import sales rising to more than 250,000 and South Korean sales increasing to 325,000 by the end of the decade.

The market share of the traditional European car produc*ers is forecast to fall from 85 to* 79 per cent during the period.

European carmakers are fighting back, however, and are in the midst of a period of *far-reaching restructuring.*

Partly under the pressure of last year's heavy losses they have taken action in order to improve efficiency, often with drastic reductions of their workforces.

Volkswagen of Germany, the leading European car producer which suffered a group loss of DM1.94bn last year, had reduced the workforce at its six domestic plants (excluding Audi) in the past three years *by 27,000 to about 102,000 by* the spring of 1994.

Higher productivity and reduced sales volumes mean it still has about 30,000 surplus employees. For 1994 and 1995, VW is operating a pioneering agreement with the German trade unions, however, allowing a sharp cut in pay and *working hours (to a 28.8 hours* week) in order to stave off even more radical job losses.

Ford of Europe, has reduced its workforce (excluding Jaguar) by 15 per cent with the loss of 15,100 jobs since late 1992. Mercedes-Benz, the car and commercial vehicle subsidiary of Daimler-Benz, Germany's largest engineering group, cut 14,700 jobs from its domestic workforce in 1992, a further 11,000 last year and it is planning to cut another 8,000 jobs this year to bring its workforce to 151,000 by the end of 1994.

The cost-cutting measures along with a modest improvement in new car sales are helping the industry to improve its financial performance this year. New car sales in west Europe in the first eight months rose by 6 per cent to 8.5m. After three successive years of losses Ford's European automotive operations (excluding Jaguar) achieved a net profit of $353m in the first half of 1994 compared with a loss of $47m in the corresponding period a year ago.

The Volkswagen group cut its loss in the first half this year to DM209m from a loss of DM1.6bn in the same period a year ago, and in the second quarter alone it returned to the *black with a profit of DM133m* compared with a loss of DM342m a year ago.

Volvo of Sweden, which is busy selling off most of its non-automotive businesses in the wake of the break-up of its alliance with Renault, increased its group operating income to SKr4.47bn in the first half this *year from only SKr166m a year* ago. Its car operations alone jumped from an operating loss of SKr70m in the first half last year to a profit of SKr1.475bn in the first half of 1994.

Restructuring is continuing to lead to a further concentration of the industry in Europe, most notably with the takeover earlier this year of Rover, the leading UK carmaker, by BMW of Germany.

Restructuring is also taking on new forms, however, as carmakers move, for example, to dispose of in-house components operations to outside suppliers to allow themselves *to concentrate on the* core operations of the design, development and assembly of vehicles.

Fiat has agreed recently to transfer a components operation with more than 700 employees to GKN, the UK automotive components supplier, and it is also selling its Sepi seat-making operations to Lear Seating of the US for $160m.

**West European new car registrations January-August 1994**

| | Volume (Units) | Volume Change(%) | Share (%) Jan-Aug 94 | Share (%) Jan-Aug 93 |
|---|---|---|---|---|
| TOTAL MARKET | 8,517,000 | +6.0 | 100.0 | 100.0 |
| MANUFACTURERS: | | | | |
| Volkswagen group | 1,369,000 | +4.5 | 16.1 | 16.3 |
| – Volkswagen | 882,000 | +1.8 | 10.4 | 10.8 |
| – Seat | 224,400 | +18.4 | 2.6 | 2.4 |
| – Audi | 222,000 | +1.8 | 2.6 | 2.7 |
| – Skoda* | 41,000 | +11.8 | 0.5 | 0.5 |
| General Motors# | 1,094,000 | +5.1 | 12.8 | 13.0 |
| – Opel/Vauxhall | 1,048,000 | +4.4 | 12.3 | 12.5 |
| – Saab** | 36,000 | +35.3 | 0.4 | 0.3 |
| PSA Peugeot Citroen | 1,083,000 | +11.6 | 12.7 | 12.1 |
| – Peugeot | 651,000 | +10.3 | 7.6 | 7.3 |
| – Citroen | 432,000 | +13.5 | 5.1 | 4.7 |
| Ford group# | 1,004,000 | +5.8 | 11.8 | 11.8 |
| – Ford | 997,000 | +5.9 | 11.7 | 11.7 |
| – Jaguar | 7,000 | -9.9 | 0.1 | 0.1 |
| Fiat group## | 946,000 | +6.0 | 11.1 | 11.1 |
| – Fiat | 738,000 | +10.1 | 8.7 | 8.3 |
| – Lancia | 119,000 | -4.5 | 1.4 | 1.5 |
| – Alfa Romeo | 78,000 | -10.5 | 0.9 | 1.1 |
| Renault | 918,000 | +8.8 | 10.8 | 10.5 |
| BMW group | 543,000 | +5.8 | 6.4 | 6.4 |
| – BMW | 269,000 | +2.7 | 3.2 | 3.3 |
| – Rover | 274,000 | +8.9 | 3.2 | 3.1 |
| Mercedes-Benz | 288,000 | +34.5 | 3.4 | 2.7 |
| Nissan | 275,000 | -4.5 | 3.2 | 3.6 |
| Toyota | 219,000 | -4.1 | 2.6 | 2.8 |
| Volvo | 137,000 | +17.5 | 1.6 | 1.5 |
| Mazda | 127,000 | -10.5 | 1.5 | 1.8 |
| Honda | 121,000 | +6.1 | 1.4 | 1.4 |
| Mitsubishi | 84,000 | -17.2 | 1.0 | 1.3 |
| Suzuki | 52,000 | -24.8 | 0.6 | 0.9 |
| Total Japanese | 927,000 | -7.4 | 10.9 | 12.5 |
| MARKETS: | | | | |
| Germany | 2,219,000 | -0.3 | 26.1 | 27.7 |
| Italy | 1,284,000 | -2.5 | 15.1 | 16.4 |
| France | 1,297,000 | +14.7 | 15.2 | 14.1 |
| United Kingdom | 1,443,000 | +9.8 | 16.9 | 16.4 |
| Spain | 620,000 | +20.4 | 7.3 | 6.4 |

*VW holds 31 per cent and management control of Skoda.
#Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
## Fiat group includes: Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source: ACEA (European Automobile Manufacturers Association) estimates.

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## WORLD CAR INDUSTRY 3

Change is being sought in the way cars are sold, says **John Griffiths**

# Large overheads persist

European carmakers and importers are in quandary about what long-term form they would like the retailing of their products to take.

The upcoming European Union verdict on whether to continue the industry's block exemption from normal EU competition rules, and which permits the industry to restrict sales to exclusively franchised dealers, may yet impose its own structural change on car retailing in Europe.

But even if Brussels were to decide to extend the exemption for another 10 years and leave its terms largely unchanged, commercial pressures are building which are themselves expected to bring substantial restructuring of the estimated 100,000 manufacturer-franchised outlets through which new cars are sold throughout Europe.

The commercial pressures have much to do with the need to cut the costs involved in both the distribution and retailing of vehicles.

In the past 10 years, most European car makers have concentrated heavily on reducing manufacturing costs and raising production efficiency as the main means of seeking to get on terms with Japanese competition.

Much of the fat has now been cut out of manufacturing. But large and unnecessary overheads persist in distribution and retailing because of the fragmented nature of retailing, not least wide differences in practice between individual countries.

Most manufacturers are starting to address the problems, through "lean" distribution systems which are at least shortening the supply pipeline to dealers.

The important questions for the future, as seen by the manufacturers, are how many dealers should there be and how large and powerful can individual dealer groups be allowed to grow?

On the one hand, the manufactures know there are too many small and inefficient dealers scattered throughout Europe. They welcome the efficiencies and investment capability of large dealer groups.

On the other, they have no wish to see big retailing groups hold sway over the manufacturers as with, for example, the supremacy of the big supermarket chains in food retailing. Some kind of new balance needs to be struck.

Throughout most of Europe, the market is served by more than 90,000 dealers, many of them small, individually owned dealers known in the industry as "mama and papa" businesses. In France, size and population distribution has contributed to the development of one of the most fragmented retailing infrastructures, with a first tier of the "mama and papa" dealers outnumbering the main dealerships by more than four-to-one. The two-tier dealer structure itself represents an inefficiency but is entrenched in the system throughout Europe.

The UK, however, also has a band of large, financially powerful public groups – some owning about 100 outlets each – eager and willing to invest sums in the business far beyond those which could be contemplated by the "mamas and papas".

The biggest, the Lex Service group with more than 120 outlets covering most major franchises, accounted for nearly 3.5 per cent of all UK new car sales last year.

Furthermore in the UK the two-tier system is being dismantled. This summer, for example, the Rover Group announced that 150 of its small dealers would have to go as the result of a move to a single-tier dealer network by the middle of 1997. The network is to be based primarily on Rover's existing main dealers.

The main dealers will be required to set up "satellite" sub-dealerships in areas previously occupied by the small independent retail outlets – investments relatively easily made by the big dealers groups and with the outlets benefiting from the group's overall economies of scale.

With retained profit per car shrinking under the pressure of competition, as Europe moves towards a completely open market for new cars at the end of the decade, maximising sales per outlet is becoming of ever greater importance.

By that yardstick, Europe as a whole is remarkably inefficient compared with North America, where new car prices are well below European levels. Europe's 100,000 franchised dealers last year sold some 11.4m new cars, an average of 114 each. Their roughly 25,000 US counterparts sold 13m – an average 520 per outlet. Even allowing for last year being a relatively poor one for Europe while the US was recovering, the contrast is a stark one.

The UK already occupies a half-way house between Europe as a whole and the US. This year, total UK sales are likely to reach slightly short of 2m – well below the record 2.3m of 1989, but enough to provide the country's 7,400 franchised dealers an average of nearly 270 cars per outlet.

As an annual survey by the trade journal *Automotive Management* of the UK's biggest dealer groups – many of them publicly owned – shows, the big have steadily been getting bigger. Their combined turnover topped £15bn for the first time last year and they are estimated by *Automotive Management* to have accounted for 37.5 per cent of all new car sales last year.

While many small, individually owned dealerships in the UK and continental Europe have ceased trading in the post-1990 recessions, most of these big groups have remained profitable, maintained a high level of investment and continued to take over less competent smaller rivals.

Their credentials for playing an ever-expanding role in an industry in need of their expertise and efficiencies appear impeccable. Yet their very effectiveness has made manufacturers wary of their potential power. As a result, dealers historically have been junior partners in the manufacturer-dealer relationship.

Much as many groups wanted to they were forbidden, for example, to set up multi-franchise sites where customers compare one make against another. Ford, for years the unchallenged UK market leader, had a rule whereby no single group could hold more than five Ford outlets or operate any other franchise within 20 miles of that outlet.

This was all very well for Ford when it controlled more than 30 per cent of the market – at the time around twice the share of anyone else. Now its share is just over 20 per cent, Vauxhall is treading on its heels and Rover is not far behind. Toyota, Nissan and Honda are increasing their UK manufacturing output and new players from the Far East such as Kia and Daewoo are joing Hyundai on the scene.

Europe is becoming more competitive as manufacturers crowd into the market. The big dealers' dependence on any one manufacturer, even Ford, is dwindling and with it their submissiveness to manufacturer diktat.

Cracks are appearing: Vauxhall and Rover are allowing multi-franchising. The big dealer groups may now have a maximum of eight Ford dealerships.

Thus the balance of power is starting to tilt in the UK.

It may be only a question of time before Lex, Inchape and their cohorts start to turn their attention to taking their expertise to continental Europe and starting the transformation process there.

**Commercial pressures: a north London car showroom** *Picture: Trevor Humphries*

**Kevin Done** reports on moves in Brussels to liberalise the car market

# Carmakers locked into lobbying battle

Europe's carmakers have been locked for several months in an intensive lobbying battle in Brussels against the plans of the European Commission's competition directorate for liberalising the European car market.

At issue is the reform of the so-called block exemption granted to the motor industry for 10 years in 1985, which allows carmakers to operate selective and exclusive car distribution and retailing systems in contravention of European competition rules. The present regulation expires at the end of June 1995.

After much delay the Commission is set to publish shortly its proposed terms and conditions for a new block exemption. Following consultation with governments and the opposed ranks of the car producers and European consumer organisations, it is hoped that details of a new regulation can be finalised by the end of the year.

The timetable is tight, but Karel van Miert, competition commissioner, is anxious to have the new rules agreed before the four-year term of the present Commission runs out at the end of December.

At stake are sharply contrasting visions of how new cars should be sold and serviced, an issue that affects millions of car owners across Europe and which arouses intense emotions among Europe's carmakers. Is the consumer best served by the dedicated exclusive dealerships allowed under the present system?

Or should the dealer networks be exposed to another order of competition, with multifranchising – the sale of competing brands – allowed on the same site.

During coming weeks the debate will focus on several issues:

- Should dealers be allowed to take on other competing franchises within their existing exclusive territories,
- Should the carmakers have to provide technical information to independent service garages, and
- Should they have to agree sales objectives with dealers with independent arbitration in the case of disagreement.
- For how long should a new block exemption be granted, seven or 10 years, and should there be an interim review of performance?

The battle over the terms of a new block exemption began in earnest in May, when the contents of the competition directorate's first draft were published in France.

In an "explanatory note" the competition mandarins stated that "the experience acquired over the past 10 years shows that this regulation has not contributed in any significant way to either the opening up of national markets or to the development of flexible and efficient structures in the distribution of cars and spares". The block exemption had to be revised to "remedy these defects and stimulate competition".

The carmakers are incensed by the proposals. They argue that the present regulation works well, that far from stifling competition, it actually guarantees it, and that what the motor industry needs above all is stability, as it fights to restructure and regain world competitiveness against both Japanese and newly resurgent American rivals.

"There are those who wish, in particular within the European Commission, to subject this industry to an unprecedented and arbitrary experiment . . . who seek to undermine the whole foundation of automobile distribution in Europe," says Giorgio Garuzzo, chief operating officer of the Fiat group and president of Acea, the European Automobile Manufacturers Association.

The assault on the carmakers in Brussels has been led by the consumer organisations, chiefly through Beuc, the Bureau Européen des Unions de Consommateurs.

Jim Murray, director of Beuc, says that the block exemption has been "an unmitigated disaster for consumers". Beuc accepts the need for competent, trained personnel to carry out garage servicing – the notion of "selectivity" allowed in the regulation.

But it claims that there is "no basis whatsoever" for allowing the present twin notions of exclusivity, that allow manufacturers firstly to limit the number of outlets on a geographic basis, and secondly to restrict them from stocking more than one brand.

"Why shouldn't new car buyers have the chance to compare different brands at a single outlet?" asks Mr Murray. "This is the sort of consumer-friendly distribution we would like to see in place after 1995."

Beuc also maintains that the original block exemption of 1985 was granted on the condition that new car prices across the then European Community should not diverge beyond certain limits, namely 12 per cent in the long term and 18 per cent for periods of less than one year. It was also agreed on condition that individual consumers were at all times free to buy cars across borders from another member state. On both counts, the block exemption has failed, it says.

The most recent car price study by the commission published this summer showed that 22.5 per cent of the models produced by European manufacturers had price differentials of more than 20 per cent. And as far as cross-border car-buying is concerned, Beuc is scornful. It claims that consumers that try to buy cars abroad are met with enormous difficulties, both from dealers and carmakers and from institutional barriers in national import, registration and tax regulations.

Acea has led the call for the extension of the existing vehicle distribution system for another 10 years, essentially without modification.

Rudolf Beger, Acea executive secretary, claims that cars are different and cannot be distributed like other products such as toasters or washing machines. Cars are the most complex consumer goods on the market, and the way in which they are serviced has big implications for both safety and the environment.

The carmakers claim that the competition directorate has provided "no factual evidence whatsoever" to support the case for radical reforms. Competition has increased greatly during the past 10 years, says Acea.

Between 1986 and 1993 the number of car brands sold on the German market has jumped by 50 per cent from 44 to 66. The number of models and versions sold in France has risen by 47 per cent from 515 in 1986 to 758 in 1993.

Surveys in the US show that customer satisfaction with conventional one-make dealers is consistently higher than with dealerships selling various brands, says Mr Beger.

The carmakers argue that exchange rate fluctuations are the biggest cause of diverging car prices, not selective distribution. "Total price harmonisation will remain a fantasy as long as there is no truly uniform market with harmonised taxes combined with a single currency or a prolonged period of guaranteed currency stability," argues Mr Beger.

As for cross-border car purchases, Acea says that it is already happening. "In recent years more and more customers and dealers have purchased cars in other member states," says Mr Beger.

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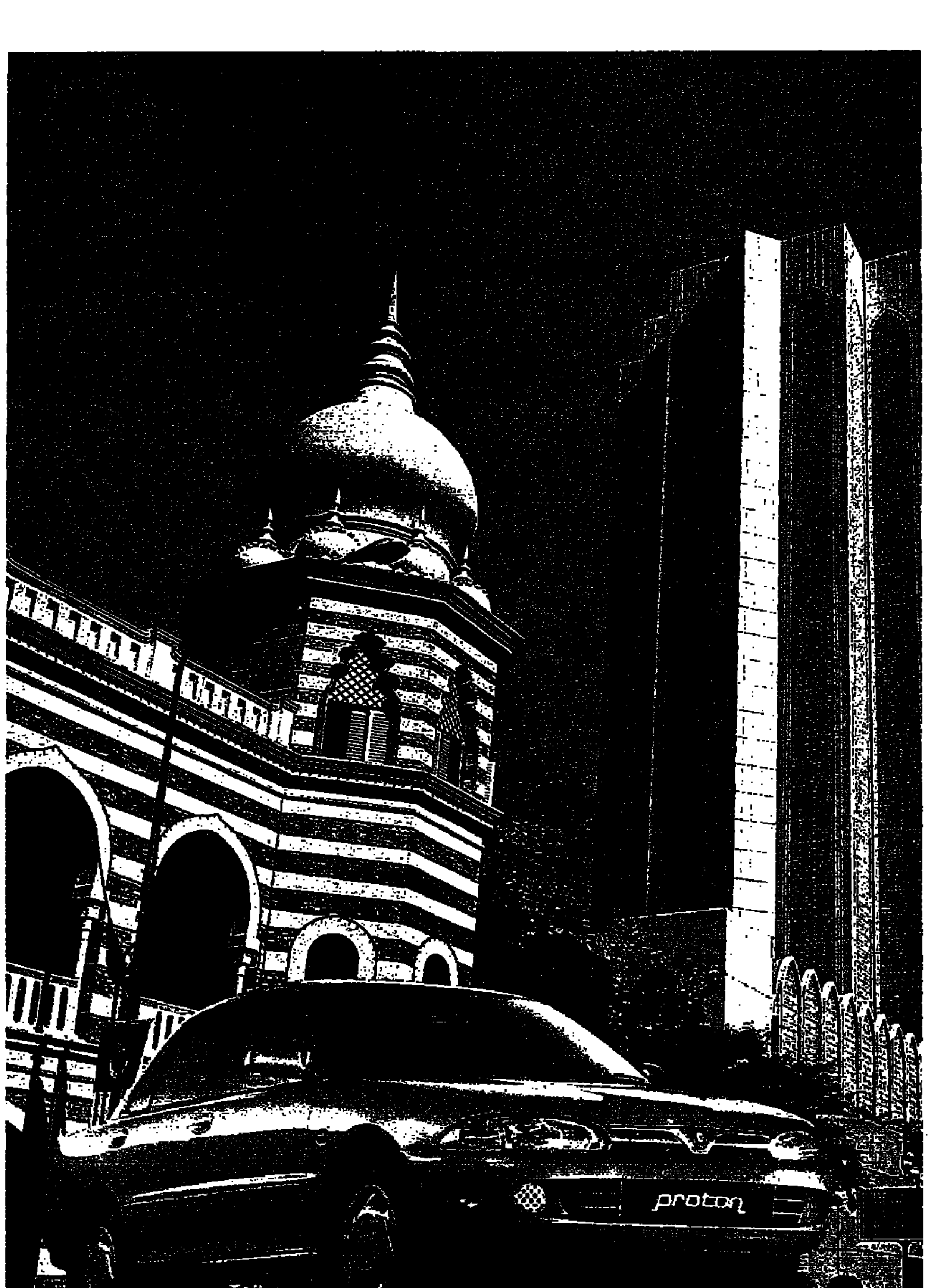

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German luxury carmakers: **Kevin Done** finds BMW and Mercedes-Benz undertaking radical strategy changes

# Striking departures for market leaders

Swatch watch boutiques have run a special offer at some European airports this year. "Buy three Swatches, get a fourth free."

It is an approach to marketing that might help to sell millions of cheap watches a year, but until recently it could hardly have been further removed from the refined world of Mercedes-Benz.

But the joint venture announced earlier this year between the prestigious German luxury carmaker and SMH, the Swiss pioneer of cheap and cheerful watches, to develop a micro compact car is one of the most dramatic signs yet of the radical change of strategy embarked upon by Mercedes-Benz.

In a striking departure from corporate tradition the German group has mapped out a future for itself as a maker of a full range of cars from flagship limousines to two-seater micro city cars.

BMW, its arch domestic rival, is demonstrating a similar ability to rethink its position in the world car industry. The Munich-based producer has previously built its reputation on a fierce independence and a profound reluctance to enter alliances with any other carmaker. Yet this year it has moved to broaden substantially its industrial base with the takeover of Rover group from British Aerospace.

Through the acquisition of the leading UK vehicle maker, BMW has doubled its production capacity and has become the foremost European maker of four-wheel drive sport/utility vehicles with Land Rover. It has acquired several new brand-names – most importantly Rover and MG as well as Land Rover – along with a position in the European market for small and medium-sized frontwheel drive cars.

Both Mercedes-Benz and BMW have accepted that their car operations can no longer be dependent solely on a German manufacturing base. They are moving fast to establish foreign assembly plants, most importantly in North America, but also in developing markets.

**Last month the first BMW rolled off the line at the group's $400m plant at Spartanburg, South Carolina**

Last month the first BMW rolled off the assembly line at the group's $400m plant at Spartanburg, South Carolina, making it the only European carmaker with an assembly plant in the US. Mercedes-Benz is not far behind, however, and is developing its first North American passenger vehicle plant in Alabama, where production should begin at the end of 1996.

The shake-up at Mercedes-Benz is one of the most surprising in the world auto industry. The group has embarked on a far-reaching realignment of its new product strategy after admitting publicly the unpalatable truth that the company's luxury cars were "over-engineered", and that if it persisted with such a policy for developing new models, it would end up being "priced-out" of world markets.

Mercedes-Benz's new strategy means that by the late 1990s it will have launched a whole series of vehicles into new segments of the world market including:

- a multi-purpose vehicle called Viano, to rival models such as the Renault Espace and to be built in Spain,
- a modern four-wheel drive sport/utility vehicle that will be assembled in the new plant in the US,
- a small family car sized between a Volkswagen Golf and a Ford Fiesta, to be produced in Germany, and most surprisingly
- the micro compact car, a two-seater for urban commuting, that is under development with SMH.

Helmut Werner, Mercedes-Benz chief executive, claims that the group's traditional customers are on the move into new markets, and the executive and luxury carmaker must be there to meet them.

Referring to the plan to create the so-called "Swatchmobile" he says boldly: "We intend to create a market segment which has hitherto not existed in this form yet provides substantial growth potential ... The micro compact car is ideally suitable to re-define urban mobility."

Mr Werner expects to decide by the end of the year on the location of the first assembly plant for the minicar in Europe, which is likely to have a capacity to produce about 130,000 cars a year with a workforce of only 1,000 to 1,200. Output is scheduled to begin in 1997.

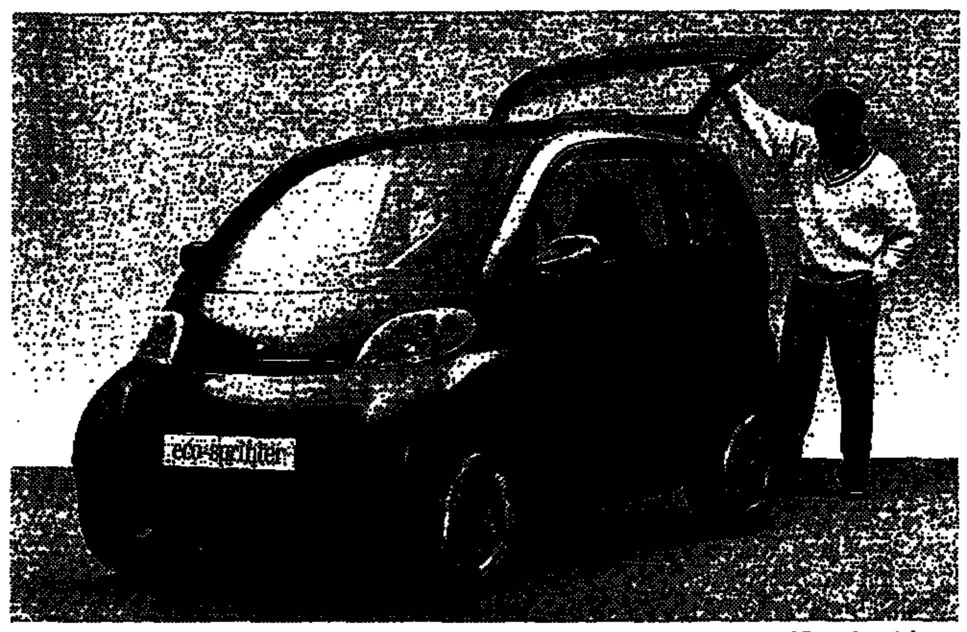
The engineering and manufacturing strategies for the minicar will break new ground for Mercedes-Benz with the extensive use of outside automotive engineering consultancies and 70 to 80 per cent of the components purchased from outside components.

The Mercedes-Benz transformation is not being achieved without pain, although the car operations have broken back into profit this year after last year's heavy losses.

The recovery this year has been helped by severe measures to cut costs and jobs, to boost productivity and to rationalise operations, but it has also been supported by an improvement in Mercedes-Benz's car sales and the successful launch a year ago of the new C-Class executive car range.

Car production in the first half of the year jumped by 44.3 per cent to 302,076, while car sales volumes increased by 40.3 per cent to 296,770 and turnover rose by 22.8 per cent to DM21.2bn.

The new projects under development are expected to increase Mercedes-Benz car production to around 1m units a year by the end of the decade according to Edzard Reuter, chairman of the Daimler-Benz group management board.



Sign of change: Mercedes-Benz Micro Compact Car, a joint venture with SMH, the maker of Swatch watches

Mercedes-Benz is planning to increase the share of its car production outside Germany to 10 per cent in the medium-term from only 2 per cent at present with production growing in countries such as the US, Mexico, South Korea and India.

With the marketplace fragmenting BMW, too, has accepted that it must move into new segments to add to its niche of high-performance executive and luxury cars.

It could have continued to go it alone and develop the necessary products itself, but that would have taken time and would have been much more expensive. Instead, it has chosen the riskier fast track of acquisition.

It believes that with Rover it has also found a viable way of entering the small car market without diluting its own precious brand image. Rover is to be its centre for small car development. "You must not over-stretch the core brand values of BMW. A small BMW would not comply with the hard core BMW image, that we have worked for 20 years to achieve," says Bernd Pischetsrieder, BMW management board chairman.

Mercedes-Benz and BMW are both striking out in bold new directions, but they have chosen very different routes to enter the small car market. "I told Werner he was wrong," Mr Pischetsrieder said earlier this year. "Clearly he does not think so."

**Christopher Parkes** reports on the industrial espionage battle between Volkswagen and General Motors

# Ever-more-complex transatlantic tussle

The scene of the industrial espionage battle between Volkswagen and General Motors has moved from the high ground and the newspaper headlines into the legal quicksands.

Investigations of the circumstances surrounding the defection to VW of José Ignacio López de Arriortúa, the US group's global purchasing supremo, in March last year have become bogged down in mountains of paper in Germany and enmeshed in an ever-more complex transatlantic tussle involving lawyers and politicians.

But GM remains convinced that the probe into what a German judge described as "potentially the biggest-ever case of industrial espionage" will eventually show that at the time VW recruited Mr Lopéz along with seven of his closest associates from Detroit and the group's German subsidiary, Adam Opel, it also gained access to vast volumes of General Motors' confidential data.

Staff poaching and charges of dirty dealing are common enough in the world of international business, but the intensity of GM's attack on Europe's biggest volume carmaker and the scale of the allegations it has made have yet to be matched in the motor trade.

The basic charges are that at the same time as Mr López was negotiating his terms at VW (and consistently denying that he was about to leave GM), he and his associates were systematically looting Adam Opel's industrial secrets.

These included details of Opel's entire European component supplier network and key contract data, especially prices; plans for a new-style low-cost, high speed car factory, and information on new models.

Mr López has consistently denied any wrong-doing, and has got on with his new job. Formerly renowned within GM for squeezing price concessions out of component suppliers, he was charged by his new boss, VW chairman, Ferdinand Piëch, with a leading role in helping the German group claw back a 30 per cent production cost disadvantage in relation to French and Japanese competitors.

Now, while VW races to reach the promised break-even point this year after last time's DM2.3bn loss, a German criminal investigation, launched in May, 1993 after GM aired its initial suspicions at the public prosecutor's office in Darmstadt, is gnawing snail-fashion at a mountain of paper and electronic data.

Dorothea Holland, until four months ago the only prosecuting lawyer on the German case, assembled this mountain - officially estimated as equivalent to about 2m computer print-out sheets - during one of the more spectacular phases of the probe, in a raid on VW's headquarters in August last year.

Now, reinforced by at least one other prosecutor, she and her team have disappeared into the pile of paper.

Following a steady flow of leaks and statements on apparently incriminating discoveries, her office has been gagged by senior legal authorities.

No further announcements will be made until a decision has been reached on whether there is evidence enough to indict Mr López and/or his associates. Until the gag was imposed, Ms Holland had appeared to be making substantial progress.

According to her office, boxes which were discovered early in the investigation in the former home of two of Mr López's colleagues were found to contain some of the allegedly confidential documents which GM claimed had disappeared at the time of Mr López's leaving.

These included plans for the O-Car, a mini-style vehicle designed for the hard-fought European market, and detailed price information.

According to eye-witness reports which to date have not been challenged by VW, the apartment's former occupants, now employed by the German group, had earlier been observed shredding large quantities of documents with two machines.

By VW's own admission, shredders were also used in its corporate guest house in Wolfsburg to destroy papers and other materials which arrived there almost immediately after Mr López's appointment to the VW board.

According to VW's statements, the "possibly sensitive" material was shredded to prevent its circulating within the VW group.

In late April this year, just before the flow of progress reports dried up, Ms Holland's office reported that the haul from her VW raid had been found to include plans for a revolutionary car factory, known as "Plant B" within VW, which showed striking similarities to Opel's "Plant X". It also emerged that further GM data was discovered on a computer diskette that had been compiled by one of Mr López's daughters.

**A US probe, started at the instigation of the Commerce Department in Washington, is stuck at the German border**

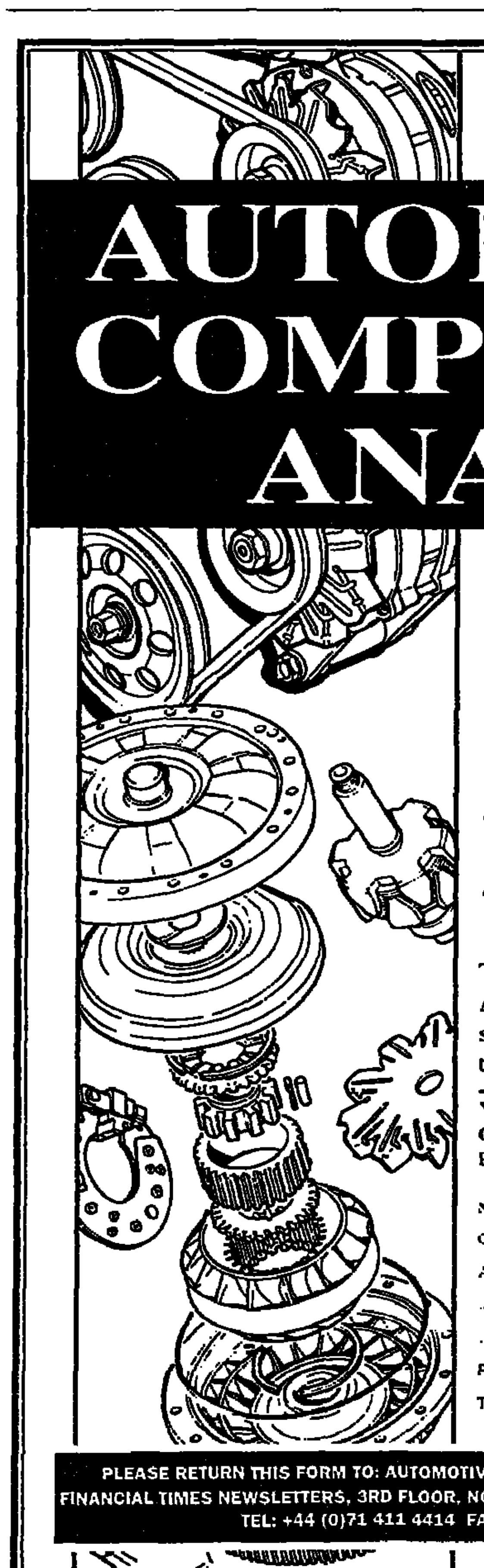
Meanwhile, a US probe, started at the instigation of the Commerce Department in Washington, is stuck at the German border in a hither-and-thither exchange involving local and federal governments, the Darmstadt diggers and VW's and GM's legal advisers.

This investigation, which was launched after US President Bill Clinton apparently decided that industrial espionage in general was a threat to his nation's well-being, is in principle a far more simple or at least more single-minded pursuit than that of Ms Holland.

The Federal Bureau of Investigation is probing possible mail and wire fraud. In effect, if GM data is found to have been posted or transmitted across state or federal boundaries without the knowledge or permission of its owner, then those responsible, the recipient or its agents may be liable to criminal prosecution and huge fines.

After months of toing and froing, the Bonn justice ministry recently agreed in principle that the FBI could have access to the evidence gathered in the German investigation.

However, since under German law VW has a right to know details of any proposed information exchange, and the right to challenge any planned moves in court, the scene appears to be set for an extended interlude that will spell yet more frustration for GM and relief for the VW management.



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FT FINANCIAL TIMES *Newsletters*

**Christopher Parkes** examines restructuring tactics in Germany

# Markets approach saturation

The recent downgrading of Daimler-Benz's long-term debt by the Standard & Poor's ratings agency came as an unnecessary but timely reminder for the German automotive industry that this year's expected recovery in profits, however welcome, has yet to be underpinned by an enduring improvement in competitiveness.

As S&P said, despite a 6.8 per cent increase in European car registrations in the first half, long-term demand growth was likely to slow as markets approached saturation. At the same time, increasing economic integration within the region, the erosion of world trade barriers and intensifying price competition would probably heighten the impact of future ups and downs in the economic cycle.

Profits are set to increase across the board this year after last year's slump into losses by all but BMW, and most analysts expect further improvements as the end of the decade approaches and the savings wrought by rationalisation in the past two years show up.

The most striking change in German factories has been on the shop floor, where automotive company's workforces have been slashed and reorganised. From a peak of 788,000 employees in July 1991, the industry had reduced its headcount by 150,000 in July this year, and a further 50,000 jobs are scheduled to go. Team working and continuous improvement processes have become commonplace methods of increasing productivity.

BMW, earliest into restructuring and the most advanced down the road to modern production methods, has managed a job-cutting programme which started in 1989 through natural wastage and limited early retirement.

Flexible working times, short-term contracts for production workers and weekend shifts have been introduced to cope with fluctuations in demand.

This policy reflects BMW's determination to establish a new order in its domestic manufacturing processes. In short, long-term investments in domestic fixed plant will be based on long-term prospects and plans, while short-term demand shifts will be countered by the flexible use of manpower.

But even the most bright-eyed optimists recognise that the savings to be gained from cutting and shuffling staff and reordering working methods are not enough to compensate for Germany's ingrained labour cost disadvantages. In the most extreme instances, each DM1 in basic pay is supplemented by a further 80 pfennigs in tax, health, and statutory and voluntary welfare and social benefit contributions.

**The upshot has been an acceleration in the flow of capital investment into the developing regions**

One common response has been an increase in foreign components sourcing - a possibility enhanced by the development of market economies in relatively low-wage countries such as Poland and the Czech Republic - which has increased the estimated average proportion of non-German parts built into German-made vehicles from 25 per cent in 1992 to about 35 per cent this year.

There is also an accelerating trend towards outsourcing of components formerly made within car manufacturers' works to specialist suppliers which can increase their economies of scale and reduce unit costs. Hence, for example, Mercedes-Benz's recent decision to hand over seat construction at its Bremen works to Leister Recaro.

Even more significant is the emergence of new partnerships between vehicle makers and their suppliers which is creating a new hierarchical structure among components makers. Accordingly, Mercedes has in the past two months set up two trend-setting joint ventures dedicated to supplying Mercedes and outside customers with key component modules.

Accordingly, its future supplies of complete power steering units will be supplied from an operation set up with and to be operated by ZF. Volkswagen has said it may join in later. Mercedes has also bundled its engine valve systems manufacture, currently focused in a factory in Bad Homburg, into a separate arrangement with two parts suppliers in a three-sided operation to be known as MWP.

But the most telling change in German management thinking has been wrought by the realisation that its traditional sales ground, western Europe, is virtually saturated.

Average annual growth for the next few years may reach 2.5 per cent, according to some estimates, but average expansion for the 1990s as a whole is expected to be only 1 to 2 per cent.

According to Achim Diekmann, chief executive of the VDA industry association, the situation in the 1980s when 90 per cent of world market growth sprang from Europe, the US and Japan, has been virtually reversed in the 1990s with 70 per cent coming from the Asean region, newly-industrialised countries and Latin America.

While motor vehicle sales in Latin America alone are expected to double to 5m units a year by 2000, the VDA estimates that vehicle output in Asia - a mere 2m units in 1990 - will have increased four-fold by the end of the decade.

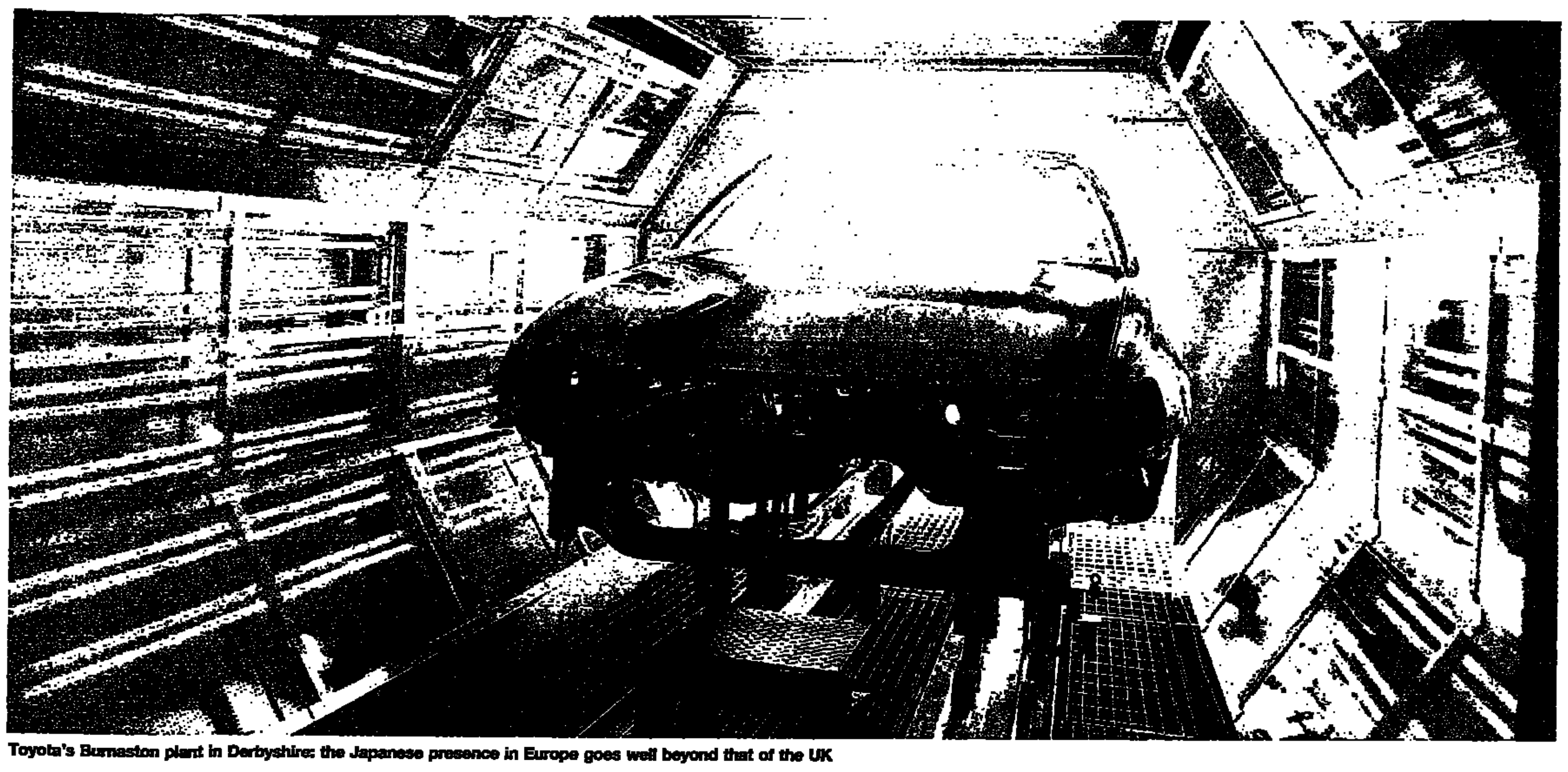
As has been recognised in other German boardrooms in other industries, the chances of carving out a substantial share of such markets via exports out of high-cost Germany are slim. The upshot has been an acceleration in the flow of capital investment into the developing regions.

Announcements of joint ventures in assembly and to a lesser extent full-scale manufacturing are becoming regular occurrences. Although overshadowed in terms of scale by such investments as BMW's and Mercedes' first US manufacturing plants, due to open shortly, the trend is now clearly set.

Mercedes, targeting the Chinese bus market, has three joint manufacturing ventures under development or study. In India it has a majority stake in a new concern to manufacture E-Class executive saloons. Volkswagen was early into the Chinese car market and is now enjoying rapid sales growth. But it has had less luck elsewhere as continuing shakeouts at its ventures in Spain's Seat and Skoda demonstrate. Autolatina, a collaborative venture between VW and Ford in Brazil is also on the verge of restructuring.

Meanwhile, its arch rival in the German market, Adam Opel, is stretching its wings into every accessible corner of the emerging global market for passenger cars. A network of Opel assembly plants stretching from Poland to Indonesia is being established around a central hub at the company's Rüsselsheim technical development centre near Frankfurt.

While other German manufacturers' plans appear less clearly defined, they share the same logical basis as Opel's: while their high domestic costs and the expensive D-Mark militate fiercely against exports, Germany's high reputation for technical excellence is the passport which will give them a fighting chance in the new markets needed to secure their long-term future.



Toyota's Burnaston plant in Derbyshire: the Japanese presence in Europe goes well beyond that of the UK

At least 1m Japanese cars will be built in Europe by 2000, says **John Griffiths**

# Transplants step up exports

Toyota, Nissan and Honda between them will account for one-third of the UK's annual car production by the year 2000, or 650,000 units, Koichiro Yoshizawa, Honda's former chairman, predicted during a recent visit to London. By then, he maintained, they will have spent a total of £2.2bn on their UK facilities and be employing 10,000 people.

There is reason to think that Mr Yoshizawa was being conservative. Nissan is already committed to 300,000 capacity but has hinted that 400,000 could be the goal by the end of the decade.

Honda has committed to 150,000 by the late 1990s but is keeping long-term options open on a move to 200,000. Toyota has already reached its phase one production rate of 100,000 cars a year with just one car, the Carina; is expected to add the smaller Corolla, and will almost certainly be producing 200,000 cars or more from its Burnaston plant in Derbyshire by the end of the decade.

That is by no means the end of the Japanese manufacturing presence in Europe.

Next spring, NedCar a joint venture between Mitsubishi Motors, the Dutch government and Volvo of Sweden, is to start producing up to 200,000 lower-medium sized cars at the radically modernised former Volvo BV plant at Born in southern Holland. One half of the output will be badged as Mitsubishis, the other Volvos.

Both Nissan and Suzuki have production operations in Spain, capable of contributing nearly 150,000 vehicles a year to Japanese production in Europe, although both have run into difficulties.

Meanwhile Suzuki has done a deal with Subaru, part of Fuji Heavy industries, under which Suzuki will build up to 12,000 four-wheel-drive cars a year at the Hungarian plant at which Suzuki already makes its Swift front-wheel-drive car. The 4wd vehicles will be badged as Subarus, with deliveries starting next year. Swifts have been rolling off the Magyar Suzuki assembly line for about a year now at Esztergom, 40km north of Budapest.

Even allowing for the Spanish problems, then, it is likely that at the end of the decade at least 1m Japanese cars a year will be in production in Europe. Additionally, Japanese cars are finding their way into Europe's markets from the US or from Japan itself.

However, the long-standing fear of the European motor industry – and the expectation of many industry analysts – that Japanese carmakers, with their standard-setting quality, would inexorably drive the Europeans into endless retreat now look much exaggerated. One reason is the soaring yen, which has made Japanese producers lose competitiveness. But more important in terms of the Japanese transplants, there has been a strong product fight-back by indigenous European producers.

Whatever the pros and cons of this debate, while total new car sales in Europe rose by 6.8 per cent in this year's first half compared with the same period a year ago, sales by Japanese carmakers fell by 5.8 per cent. Their market share stands at about 11 per cent compared with 12.4 per cent a year ago.

The setback provides no grounds for complacency. The European industry expects Japan to regroup and Nissan, for one, is already revising its approach to the European market, with more frequent facelifts now planned for its models than is the norm in Japan.

Nissan, Japan's second-largest vehicle maker, began production at Sunderland in 1986 and had built up production to 175,000 units a year by 1992. Last year's output had been scheduled to reach 270,000 as the Micra small car joined Primera production. However, with the UK market weaker than expected and a steep downturn then under way in continental Europe, Nissan was obliged to trim its sails and output levelled off at 246,000.

Nissan Motor Manufacturing (UK) managing director Ian Gibson says that current output rates are about 220,000 units a year. He refuses to predict what this year's total production might be.

Despite the problems, Nissan – which has won the Queen's Award for Exports for three years in succession – emerged as the leading UK car exporter last year, outstripping Rover group, Ford and Vauxhall. Indeed, the Japanese transplants last year accounted for three of the top six places as UK car exporters. Seventy-four per cent of Sunderland's output was exported.

A few weeks ago Honda, Japan's third largest car maker, announced plans to increase by 50 per cent the capacity of its Swindon plant in south-west England to 150,000 a year by the late 1990s. This will raise direct employment by 500 to 2,500 and lift Honda's total investment in the Swindon facilities to £700m, according to Kazue Ito, president of Honda Motor Europe.

Production of a second model, the Civic, is just getting under way at Swindon alongside the larger Accord range with which the plant went on stream at the beginning of last year. The car will go on sale in some parts of southern Europe in December, in Germany in January and in the UK in March.

The Civic, which replaces the Concerto model which Rover had been building for Honda on its Longbridge lines, is intended to lift Swindon's annual output to 100,000 next year. If all goes to Honda's plan, Swindon will thus provide about half the 300,000 cars a year Honda is hoping to be selling by the end of the decade.

Honda plans to sell about 60,000 of the Civics in Europe next year, and describes the car as the most important it has ever launched in Europe. The sales target appears modest beside the 200,000 a year that Rover intends to build of its version of the Civic, the Rover 400.

Rover is producing the 400 – which will look markedly different from the Civic – under licence from Honda, continuing collaboration put in place before Rover's sale to BMW by British Aerospace and the subsequent dismanting of cross shareholdings between Honda and Rover.

Honda, initially dismayed and angered by the sale of its UK partner to BMW, is taking a pragmatic stance about its European future.

Fears that the Japanese would simply build "screwdriver" plants in Europe with minimal local content have long since disappeared. Nissan, admittedly the longest-established in the UK, already has 83 per cent European content, makes its own engines and even has its own foundry to produce castings. The latest, £30m investment is in a facility at Sunderland to produce axles. The only major component still to come from Japan is the gearbox.

Indeed, exports of components produced in the UK for the transplants is also on the increase. Toyota's £140m engine plant at Deeside, Clwyd, is beginning to supply a new car assembly plant in Turkey as well as the UK production lines. Several UK and continental-owned suppliers to Burnaston are also seeing their components being exported to Japan itself.

Japan and the EU agreed three years ago to set annual EU-wide import quotas, to be reassessed every six months, to pave the way for a completely open European car market by the end of the decade. As part of this agreement, restrictions which had previously been imposed by individual member states became null and void.

In view of the resumption of sales growth in Europe, Japan was planning to seek a bigger quota for car exports to the EU at the latest of the six-monthly talks between officials of the European Commission and the Japanese Ministry of International Trade and Industry, in Brussels on September 29 and 30.

Inevitably, there were likely to be robust discussions while forecasts were compared. But so far, the monitoring system seems to be functioning fairly well.

France: government incentives have helped the industry but celebrations are muted, writes **John Ridding**

# Doubts persist on resilience of recovery

The French car industry has turned the corner after the black year of 1993, boosted by special government incentives for car buyers and a revival in the French and European economies. Monthly sales figures so far this year have generally recorded double-digit rises, providing a stimulus for broader economic growth.

The two giants of the industry, PSA Peugeot Citroën and Renault, are both on course for healthy increases in results for 1994 and are benefiting from revamped product ranges. At Renault, the outlook has been helped by last month's announcement that the government will partially privatise the state-owned company, an operation which will be accompanied by a FFr2bn capital increase.

Despite such uplifting factors, however, there is only muted celebration at the headquarters of the French car manufacturers. Doubts persist about the resilience of the recovery, while the structural problems in the European industry have been masked, rather than resolved, by economic revival. In France, government measures to boost sales, including a premium of FFr5,000 to car buyers who trade in a vehicle more than 10 years old to buy a new one, have had a temporary, if significant, effect. For Renault, there are additional question-marks about its longer-term strategy after the collapse at the end of last year of its plans to merge with Volvo.

Jacques Calvet, Renault's chairman, expressed the general caution at the recent launch of a new version of the company's Xantia mid-range car. Predicting an increase of about 4 per cent in Europe's car market this year, he said that was still "bad when you realise that 1993 brought a drop of about 15 per cent on 1992".

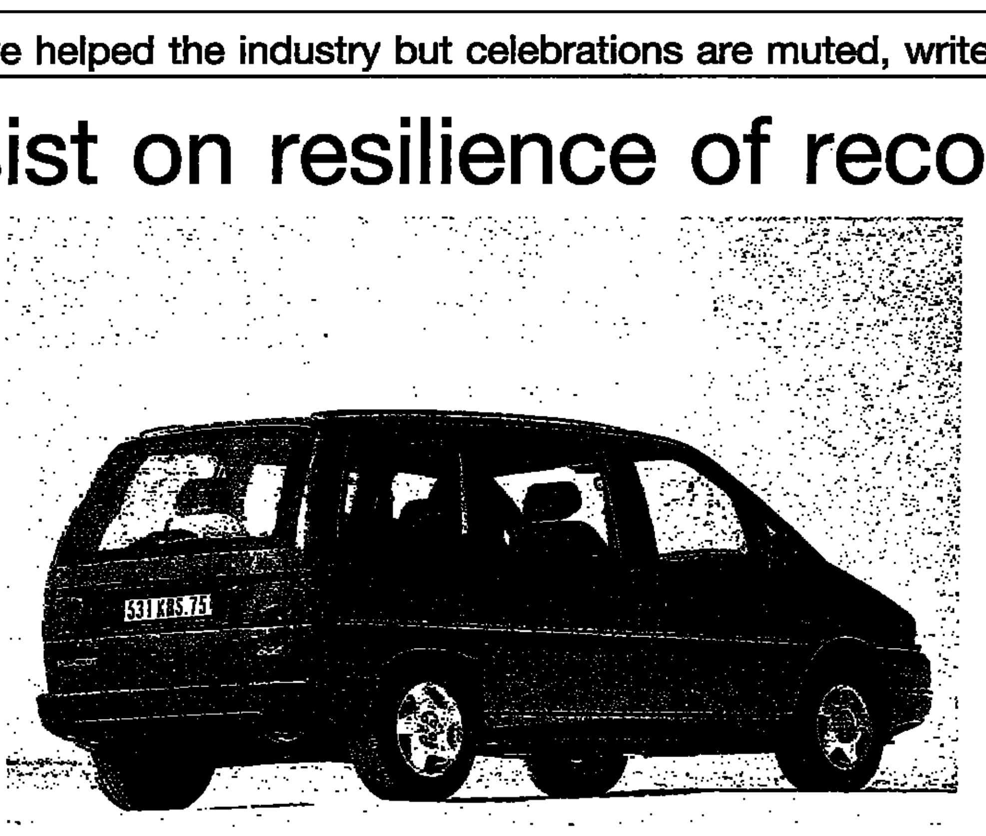
**At Renault, already one of Europe's most profitable car manufacturers, the current year will see a strong rise in earnings**

As for France, he said: "I am not so pessimistic as at the end of July, but I do not hold with the forecasts of a French market of 2m cars in 1994."

For the Peugeot boss, and for most industry observers, the French market should nevertheless see a healthy rise this year. "I think we will see a rise of about 12 or 13 per cent to just over 1.9m units," says one analyst at a French merchant bank.

That kind of improvement should lead to earnings growth at the French manufacturers. Peugeot Citroën is on course to bounce back to profits after a net loss of FFr1.41bn in 1993. In addition to improved market conditions, the company has been implementing productivity measures and reducing its debt burden. Net debts are forecast to fall to about FFr10bn at the end of the year, compared with FFr18.7bn at the end of 1993.

The improved competitiveness of its range – which has seen the introduction of the 106 and 306 models and, more recently, its passenger van rivals to the Renault Espace – is also shown in market share figures. In the first eight months of 1994, the Peugeot group captured 12.7 per cent of the European market, compared with 12 per cent in the same period last year.



The Peugeot 806: the company is improving the competitiveness of its range

At Renault, already one of Europe's most profitable car manufacturers, the current year will also see a strong rise in earnings. First-half results announced last month revealed net profits of FFr1.7bn, more than double the figures in the comparable 1993 period.

The results were flattered by the impact of exceptional gains from the sale of shares in Volvo, Renault's erstwhile merger partner. They also masked a decline in operating profit, partly reflecting the lower margins of entry level models favoured by the government's incentives. For the full year, however, both Renault and industry analysts expect a strong improvement in the bottom line.

Part of this will come from improved international sales. Like Peugeot, Renault has been extending its tentacles into emerging markets in eastern and central Europe and Latin America.

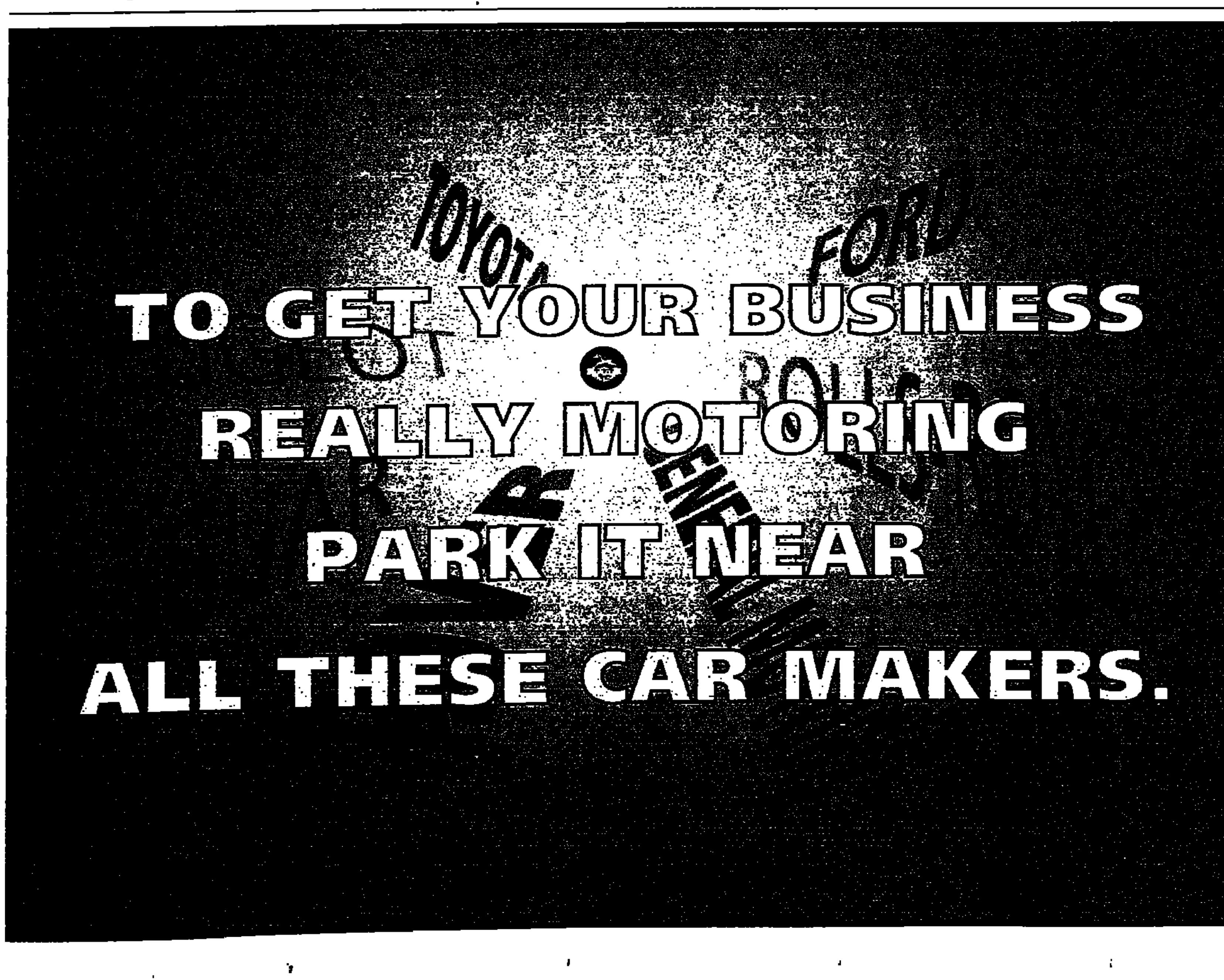
Like its domestic rival, Renault has benefited from a revamped model range. The Twingo, the popular mini-car, has helped restore its reputation for innovation. The Safrane has strengthened the company's position at the opposite end of the market.

The question marks over the state-owned group relate more to its longer-term strategy in the wake of its failed alliance with Volvo. The spectacular collapse of merger plans at the end of last year deprived Renault of significant cost savings from economies of scale and the sharing of design costs and components. This was a particularly important factor with respect to RVI, its trucks and buses subsidiary.

Since the departure of Volvo, the centre-right government of Edouard Balladur has indicated that industrial partners need to be found before Renault can be privatised. The state will retain a stake of at least 51 per cent following Renault's forthcoming flotation, due to be held by the end of the year. The implication is that Renault's future must be guaranteed in the increasingly competitive car industry before it can be released to the threats of private sector predators.

For the time being, Renault is pursuing a strategy of specific targeted alliances, rather than a grand partnership *à la* Volvo. Thus, it has recently concluded an agreement with Iveco, Fiat's truck subsidiary to co-operate on the design and development of cabins, while rejecting the merger of its foundry facilities with those of the Italian group. It already has extensive co-operation agreements with Peugeot for the development of components.

Speculation is bound to continue, however, about the formation of bigger alliances. That is unlikely to deter potential investors in Renault, particularly given the restricted supply of shares in its forthcoming flotation.

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The UK: after August's boom failed to materialise, the confidence seen earlier this year has disappeared

# Rude shock dealt to the forecasters

The UK motor trade and industry has entered this year's final quarter in a state of unease and uncertainty.

In the first seven months of the year confidence was riding high. The UK new car market was leading Europe out of recession faster than anyone had predicted.

After their precipitate fall from the record 2.3m market that was achieved in 1989 to 1.59m by 1992, registrations had recovered to 1.78m last year and were up a further 14 per cent in this year's first half.

With the approach of August, the "boom" sales month unique to the UK because of its annual introduction of a new registration letter prefix, the Society of Motor Manufacturers and Traders predicted August registrations could reach 0.5m, matching a level that has no been seen since 1989.

To the industry's dismay, the boom did not materialise. August finished only 2.8 per cent ahead of last year at a mere 445,000 units.

It also became apparent that the increase had been fuelled entirely by the company car sector making long-overdue replacements of its fleets. The SMMT's own statistics showed that there were substantially fewer private buyers in the market than in the previous year.

Manufacturers and importers have therefore found themselves approaching the final quarter with unexpectedly high stocks, a renewed question mark over the underlying strength of the UK economic recovery and a rude shock to the already fragile consumer confidence that came in the form of the first rise in UK interest rates for five years.

Kenneth Clarke, the chancellor, has warned that more rises are in store if inflation continues to edge upwards. To add to the last-quarter uncertainty, there are no indications that this year's Budget, due in late November, might contribute to the "feelgood" factor so necessary for private motorists to commit themselves to a new car purchase.

Against this background, the trade and industry has been retreating from earlier forecasts that this year could see the UK return to a 2m-plus market for the first time since 1990. Vauxhall, describing the recent interest rate rise as "unhelpful", has scaled back its own forecast to 1.92m.

Richard Ide, chief executive of Volkswagen/Audi's wholly-owned UK importer, maintains, however, that his company "never subscribed to the notion of a half-a-million August".

It expects a 1.9m market this year, rising only slightly to 1.95m in 1995 and points out

**Many are settling for simpler cars with fewer expensive options in order to reduce their personal taxation burden**

that the 60,000 cars built for buyers who did not materialise in August are going to leave market conditions extremely competitive for the foreseeable future.

The German company, along with some other "traditional" continental importers such as Peugeot Citroën and Fiat, has substantially outperformed the market this year, achieving unit sales gains of 23 per cent for Audi and 27 per cent – in large part a reflection of the greater freedom of choice being given to company car drivers. "The executive/luxury sector is holding up well but it's almost all company money," says Mr Ide.

There appears to be little sign of company car drivers handing back their keys in a favour of a cash alternative – something which was widely predicted in some quarters following several years of company car benefit tax increases well above the rate of inflation and the adoption of a new tax regime this year based on a simple percentage of new cars' list prices.

But where the new tax regime is having an effect is on the type of cars for which company car drivers are opting. Many are settling for simpler cars with fewer expensive options in order to reduce their personal taxation burden. Manufacturers insist, however, that there are few examples of drivers who have been entitled to an executive-level car opting for a much smaller and cheaper one, plus top-up cash.

Meanwhile, most of the UK motor trade and industry is uniting to seek the abolition of the August registration letter prefix system. Conceived in the early 1960s, its declared aim was to help make the yearly sales pattern more even, by reducing what was then an unwieldy sales peak at the start of each calendar year. A useful proportion of buyers, the industry felt, would prefer the perceived one-upmanship of having the latest number plate letter in August.

The undeclared hope was that the "keeping up with the Joneses" element of the yearly letter would also sell more cars.

For many years, the system appeared to achieve both goals. Yet by the mid-1980s the August sales bulge was already getting out of hand; far eclipsing the January sales peak and coming to account for almost one quarter of a full year's sales.

It meant that by as early as May of each year, the "let's wait for the new letter" syndrome was affecting sales. July, typically, now accounts for little more than 2 per cent of the yearly total. Thus dealers' cash flow has been dwindling at the very time that they need to acquire large stocks for the August "boom", drawing manufacturers as well into ever more complex and costly stocking finance schemes.

Not least, dealer workshops have tended to be crammed with new cars being prepared for delivery at the peak of the season – a factor hardly likely to be in the interest of customers, either.

Finally, when August is over, the dealers face the problem of what to do with the mountain of trade-ins.

In a recent poll commissioned by *Automotive Management*, more than 200 dealers voted six-to-one for the system to be scrapped. Most now appear to believe that whatever extra sales may have been generated in the past, they are no longer worth the market distortions caused.

According to Sewells International, the marketing monitoring group, replacing the existing system with one spreading sales more evenly through the year could save the industry almost £1.5bn in stocking and related costs.

The Society of Motor Manufacturers and Traders has set up a working party to investigate alternative systems and to try and reach agreement

**Most of the production expansion is being accounted for by the Japanese "transplant" factories**

within the trade and industry on which one should finally be put forward to the government.

It hopes to reach conclusions before the end of the year. More frequent letter changes, the issue of a "personal" registration plate to the driver, and resurrecting a regional system are all coming under consideration.

The outcome of the debate will be watched with particular interest by overseas car makers.

The August prefix system is unique to the UK. Without it, continental Europeans in summer are interested in vacations, not buying new cars and demand in continental Europe slumps accordingly. For Fiat, Peugeot, Volkswagen and others, therefore, producing right-hand-drive cars for Britain's August "boom" is a valued way of keeping assembly lines flowing.

The UK car industry, however, is no longer an easy target for ambitious importers. On the contrary, car production this year might well reach a 21-year high as the result of prolonged, steady improvement since the early 1980s – when annual output dipped briefly below 900,000.

Last year the UK industry produced 1.375m cars, a 6.4 per cent rise over a year earlier. The rise in the first half of this year is much smaller, only slightly more than 1 per cent (to 751,717).

However, this was largely a reflection of production for export being affected by recession in the opening months of the year in continental Europe's markets. With most of these markets now growing again, the upward trend should shortly resume.

Most industry analysts suggest that production will break through the 2m mark well before the end of the decade.

However, this performance would have been achieved by the motor industry in Britain, not a British-owned industry. With the sale by British Aerospace of Rover Group to BMW of Germany this year, only a handful of small specialist companies such as Rolls-Royce and the Blackpool-based sports car manufacturer, TVR, are UK-owned.

And most of the production expansion is being accounted for not by old-established companies such as Ford (still UK market leader) and General Motors' Vauxhall subsidiary, but the much more recent Japanese "transplant" factories.

Toyota started production of the Carine E (for Europe) upper-medium car range at the beginning of last year. By year-end it had built 37,000. Output jumped to 43,000 in this year's first half and industry analysts DRI McGraw-Hill project nearly 91,000 this year, rising to 200,000 by 1997 – by when, DRI predicts, Toyota will have introduced a second model, the smaller Corolla, to the Burnaston lines.

Toyota has yet to confirm this; nor has it publicly given DRI any reason to predict that Toyota's output will reach nearly 300,000 before the end of the decade – well above the 200,000 capacity Toyota has so far indicated for the plant.

However Honda, whose Swindon plant began producing the Accord upper-medium saloon at the end of 1992, and which is also about to start producing the smaller Civic, has already announced a £330m programme to expand Swindon's output to 150,000 cars a year by the end of the decade, from the 100,000 expected in 1995.

Nissan, which made its decision to manufacture in the UK almost exactly 10 years ago, has also hinted that its current 200,000 capacity may be doubled by the end of the decade.

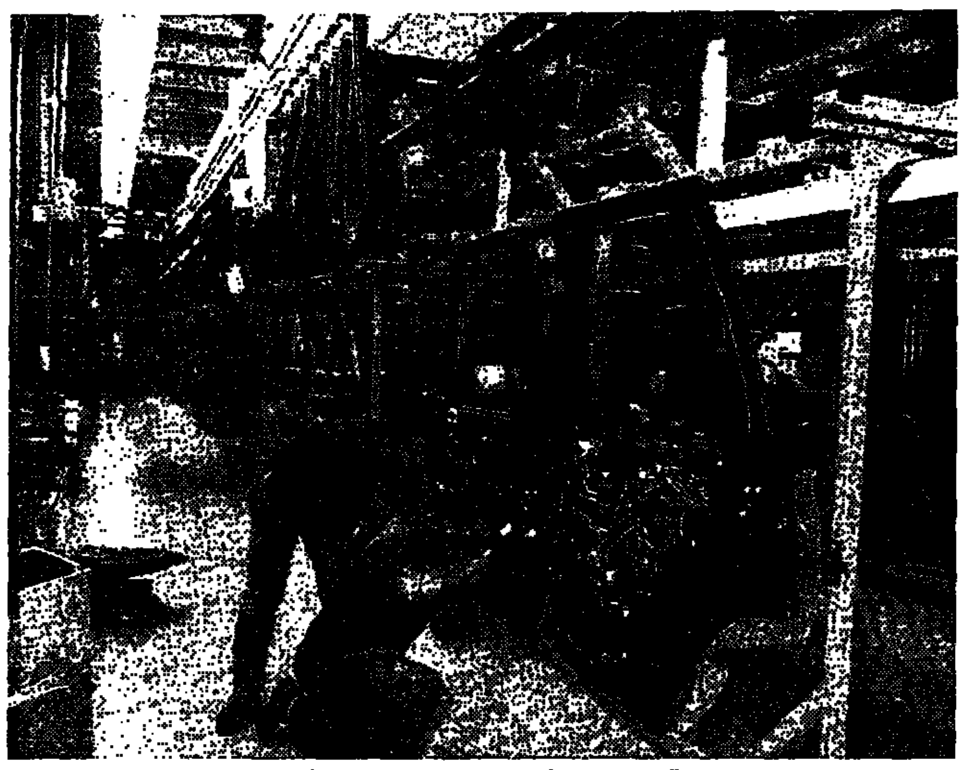
It is unlikely that a similar announcement from Toyota will be very long delayed.

Total Japanese output in the UK last year was 316,000 cars, 23 per cent of the total. Of these 237,000 were exported – some 45 per cent of the UK total.

However, while the output of Ford and Vauxhall has fallen back, Rover's drive upmarket is continuing to pay it dividends. Expansion of its Land Rover four-wheel-drive activities is proceeding apace, thanks to soaring world-wide demand for its Discovery model, while a rash of new products in the next 18 months will include Rover's version of the new Honda Civic, the 400; a new 200 hatchback, an MG sports car and a Metro replacement.

DRI, for one, believes that the various product programmes will see Rover producing more than 500,000 cars a year by 1997, compared with 407,000 last year.

**John Griffiths**



Land Rover production line: expansion of four-wheel drive activities is proceeding apace

**UK new car registrations January-August 1994**

| | Volume (Units) | Volume Change(%) | Share (%) Jan-Aug 94 | Share (%) Jan-Aug 93 |
|---|---|---|---|---|
| TOTAL MARKET | 1,443,318 | +9.8 | 100.0 | 100.0 |
| UK produced | 612,320 | +4.7 | 42.4 | 44.5 |
| Imports | 830,998 | +13.8 | 57.6 | 55.5 |
| Japanese makes | 171,570 | +3.6 | 11.9 | 12.6 |
| MANUFACTURERS: | | | | |
| Ford group | 321,975 | +9.7 | 22.3 | 22.4 |
| – Ford | 317,328 | +9.9 | 22.0 | 22.0 |
| – Jaguar | 4,647 | -3.7 | 0.3 | 0.4 |
| General Motors | 242,028 | +7.5 | 16.8 | 17.1 |
| – Vauxhall | 234,470 | +7.4 | 16.3 | 16.6 |
| – Saab* | 7,558 | +8.9 | 0.5 | 0.5 |
| BMW group | 210,810 | +4.3 | 14.6 | 15.3 |
| – Rover** | 176,370 | +2.9 | 12.2 | 13.0 |
| – BMW | 34,440 | +12.6 | 2.4 | 2.3 |
| Peugeot group | 182,396 | +8.5 | 12.6 | 12.8 |
| – Peugeot | 114,147 | +8.1 | 7.9 | 8.0 |
| – Citroen | 68,249 | +9.3 | 4.7 | 4.8 |
| Volkswagen group | 96,602 | +27.8 | 6.7 | 5.8 |
| – Volkswagen | 58,653 | +21.3 | 4.1 | 3.7 |
| – Audi | 18,541 | +27.5 | 1.3 | 1.1 |
| – SEAT | 10,492 | +54.3 | 0.7 | 0.5 |
| – Skoda†† | 8,916 | +50.5 | 0.6 | 0.5 |
| Renault | 86,128 | +21.8 | 6.0 | 5.4 |
| Nissan | 68,471 | +6.5 | 4.7 | 4.9 |
| Fiat group† | 45,314 | +32.9 | 3.2 | 2.6 |
| – Fiat | 43,950 | +36.7 | 3.1 | 2.5 |
| – Alfa Romeo | 1,193 | -21.6 | 0.1 | 0.1 |
| Toyota | 38,294 | +4.8 | 2.7 | 3.1 |
| Volvo | 30,214 | -5.4 | 2.1 | 2.4 |
| Honda | 28,658 | +35.0 | 2.0 | 1.8 |
| Mercedes-Benz | 21,801 | +52.9 | 1.5 | 1.1 |
| Mazda | 12,943 | -4.5 | 0.9 | 1.0 |

*GM holds 50% of Saab Automobile and has management control. **Includes Range Rover and Discovery. ††VW holds 31% of Skoda and has management control. †Includes residual Lancia registrations.

Source: Society of Motor Manufacturers and Traders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Italy: Fiat is still shaking off effects of recent losses, says **Andrew Hill**

# Labouring in the slow lane

For evidence of how bad the past couple of years have been for the Italian car market, you need only look at Fiat Auto, with its 44 per cent share.

In 1993, the company – which manufactures under six different brand-names, including Fiat, Lancia, and Alfa Romeo – lost L1,745bn, after only breaking even in 1992. The Fiat industrial group reported a record loss of L1,783bn after tax and minority interests, reflecting its dependence on the automotive business.

Not only was the state of the European car market grave, it was unexpected. Gianni Agnelli, chairman of Fiat group, said in July that it was "only matched by the collapse in demand after the first oil shock 20 years ago".

Signs of recovery in the Italian market are slower to appear than in the rest of Europe. While deliveries in Europe rose an average of 6.6 per cent in the first half of 1994, the number of units delivered to clients by Italian distributors slipped 2.6 per cent to 1.058m, from 1.086m in the same period, according to Anfia and Unrae, the Italian trade bodies for automobile manufacturers and importers.

Italian car buyers are already punished by the high cost of petrol, and the high level of taxes on new cars but in the first quarter of 1994 the market was also hit by political uncertainty, ahead of the March general election.

Optimism after the victory of Silvio Berlusconi's right-wing alliance was undermined by the new government's failure to clarify whether it would introduce incentives for first-time car-buyers and existing owners wanting to replace their vehicles.

**'At the moment, prices are much lower than in the rest of Europe, possibly by as much as 15 or 16 per cent'**

Fiat claimed potential customers were holding back from buying because they thought incentives could be round the corner. As Mr Agnelli observed tartly at the group's annual meeting in July, car sales in France and Spain – both had enacted measures to improve demand – increased substantially in the first five months of the year.

In the past couple of months, however, better news has begun to filter through from the market. Official statistics in Italy are notoriously sluggish to emerge, but projections from the ministry of transport indicated that registrations in August increased, compared with the equivalent period last year, sustaining a year-on-year monthly increase.

Promotor, an independent car industry research group based in Bologna, observed in September that the faint signs of a general Italian economic recovery were beginning to stimulate the car market.

Some 58 per cent of Italian dealers polled by Promotor at the end of August said the level of orders was normal or high, compared with only 20 per cent in June, and 29 per cent in July. Only 16 per cent of dealers thought demand would drop over the next three or four months. Consumers, cajoled by aggressive autumn promotions, may now go ahead with purchases which were postponed for the first two-thirds of the year. Fiat, in particular, has put much promotional weight behind its new Punto small car, Italy's best-seller.

However, there are plenty of reasons to be cautious about the statistical evidence. The main one being that the figures may be distorted by the high proportion of "parallel exports" from Italy to other countries where prices are generally higher.

Until two years ago, it was Italians who slipped across the border to buy up to 50,000 or 60,000 cars a year from dealers in neighbouring countries. After the September 1992 devaluation of the lira, however, it is Italy which is benefiting from the bargain-hunting traffic, officially discouraged by the car distributors.

"At the moment, prices are much lower than in the rest of Europe, possibly by as much as 15 or 16 per cent," says Gian Primo Quagliano, director of Promotor. "But with discounts offered by dealers and intermediaries, that can rise to more than 20 per cent."

He estimates that out of some 1.9m sales likely to be recorded this year by Italian dealers, as many as 250,000 could be accounted for by parallel exports, compared with

Agnelli: incentives are needed to woo potential customers

150,000 in 1993. "Sales are roughly at the same level as last year, but this total is made up of internal demand, which is still cautious, compensated by [parallel] exports," says Mr Quagliano.

Fiat Auto, which is pressing the transport ministry for more efficient statistical information about the Italian market, warns that some parallel exports may be counted twice, as registrations for Italy and the final country of destination.

Parallel exports are still sales, however, and the currency devaluation has undoubtedly benefited Italian manufacturers, even on the home market. For example, the strong yen has discouraged Japanese imports, further shielding Fiat and its main European and US competitors on the Italian market, from the likely effects of full liberalisation of the European Union car sector in 1999.

In the first half of the year, Italian car-makers (that is mainly Fiat, plus some specialist manufacturers) accounted for 45.89 per cent of the total number of cars delivered, according to the Anfia/Unrae statistics – an increase of more than 1 percentage point on their market share in the first half of 1993.

Fiat group is forecasting a return to overall profit in 1994. But Fiat Auto is still relatively pessimistic about its home territory. "For us the Italian market isn't showing any signs of recovery. Although we have had one or two months where sales have increased the trend generally this year is static," says Fiat.

For Fiat Auto's Italian operations – and, by extension, for the Italian car market as a whole – the real recovery will not be felt until 1995.

Spain: a subsidy scheme has helped push up sales

# Optimists have upper hand

Optimists about the Spanish car industry will point to this year's surging sales figures, while pessimists will underline the traumas undergone by Seat, the VW subsidiary and Spain's biggest producer, and by Santana, the now all-but-bankrupt small company owned by Suzuki. But few in the domestic industry doubt that the optimists have the day.

In the first eight months of this year car registrations in Spain rose 20.5 per cent on the January-August 1993 market total, well ahead of the European Union average, to 555,000 units. The forecast is that the final 1994 registration figure will be about 900,000, comfortably up on last year though short of the historic high of 1.1m cars registered in 1989 at the height of Spain's growth period.

A key element in this rush for registrations has been a government programme that, imitating a French initiative, pays owners of a 10-year-old car Pta100,000 ($781) for trading in the vehicle for scrap to buy a new one. Few government subsidy initiatives have met with such a ready response from the public.

The so-called *Renove* programme was brought in for a six-month period which expires this month and manufacturers, who say that it has accounted for some 70 per cent of the sales that have been made while it has been in operation, are seeking to have the programme renewed for another six months.

The *Renove* incentive showed that attractive pricing can work wonders in what is potentially a very large domestic market. Unsurprisingly, manufacturers are lobbying the government to strike out a 13 per cent car tax on new purchases which, when combined with the Value Added Tax that is levied on vehicle acquisitions, places a 28 per cent tax burden on buyers.

Vehicle exports have also done well and stood at 73 per cent of total production in the first half of this year, a ratio which is at least five points up on what in recent years has been considered normal for Spain's largest export-driven industrial sector.

Two factors have spurred sales outside Spain: the competitive peseta after three devaluations of the national currency in 1992-93; and the

**As EU recovery dampens demand for small cars, emerging markets will grow in importance for Spanish exports**

increased attraction, during times of recession, of the small and cheap cars in which Spain specialises.

New markets outside the EU for Spanish cars –in eastern Europe, North Africa and Latin America – are estimated to represent not much more than 5 per cent of the export total, though statistics may mislead since Spanish-built Renault-5s, for example, which are nominally exported to France, are likely to be re-exported.

The likelihood is that the emerging markets will sustain the momentum of Spanish car exports when the EU recovery dampens the demand for small cars.

Nevertheless, most headlines about the domestic car industry have concentrated on Seat and Suzuki.

Both firms are in trouble but neither is representative of the sector as a whole, says Carlos Espinosa de los Monteros, president of Anfac, the Spanish car manufacturers' federation.

Seat went through a traumatic period at the end of last year when its VW parent announced the closure of its 30-year-old plant by the port of Barcelona. However, this development had long been awaited, particularly as VW had invested strongly in a new Seat facility outside Barcelona which will probably be the last big car plant to be built in western Europe.

The new Seat plant at Martorell, north-west of Barcelona, says a great deal more about VW's commitment to car production in Spain than does the messy and emotionally-fraught closure of the historic, but obsolete, plant in Barcelona's Zona Franca port area.

Suzuki was dragged into labour disputes early this year when it announced that it would withdraw from the small Santana production centre that builds Vitara four-wheel drive vehicles.

After a series of under-subscribed capital increases the Japanese giant, which had entered Santana as a junior partner to provide technical support, unwittingly found itself to be the virtual sole shareholder of a company that it had no intention of owning.

The chief problems at Santana, which formerly manufactured Land Rovers and was controlled by the UK's Rover group, are that it lacks a strong product and is strapped for cash.

This is not a situation that on either count bears resemblance to any other vehicle producer in Spain.

At present, the small Santana plant, based in the otherwise agricultural town of Linares in the south and far from Spain's main industrial centres, is fitfully building Vitaras and hoping that a Korean group will step in to take up Suzuki's burden. The Japanese producer has already served notice that it intends to pull out of Spain at the end of this year.

The other domestic car builders – Ford, General Motors, Renault, Citroën and Nissan – are talking about the start of a new growth cycle. Anfac says that, barring Suzuki, no foreign automobile group in Spain is even discussing relocation elsewhere.

**Tom Burns**

**Martin Dickson** finds recent market statistics underline renewed international competitiveness in the US

# New lease of life for the industrial dinosaurs

There are few more striking examples of US industry's renewed international competitiveness than its motor companies, which just five years ago were being written off as sclerotic industrial dinosaurs, doomed to cede an ever larger share of the US market to Japanese rivals.

Today, Detroit's Big Three manufacturers – General Motors, Ford Motor and Chrysler – have bounced back, or are in the process of doing so, although fierce competition from Asian and European rivals means they cannot afford any complacency.

Recent market statistics underline both this recovery and the see-saw struggle for US market share:

In 1993, for the second year in a row, Japan's share of the US car and light truck market fell, to 23.1 per cent from 24.3 per cent in 1992 and 25.7 per cent in 1991. Detroit's share rose from 72.2 per cent to 73.9 per cent.

This year, however, both Japanese and European manufacturers have presented a stronger challenge – notably in the car market, where they have clawed back significant market share, although Detroit argues that this is partly because of a shortage of products from the Big Three because of model changeovers.

In the first eight months of 1994, Japanese name-plates accounted for 29.8 per cent of the car market, compared to 28.8 per cent in the same period of 1993, and Europe was up from 3.5 per cent to 4.3 per cent, led by a reviving Volkswagen/Audi. Detroit's share slipped from 66.4 per cent to 64.4 per cent.

For the car and light truck market as a whole, Detroit

**Detroit's financial fortunes have been helped by the turn in the US economic cycle**

held a 73 per cent share, down from 74.1, while Japan was on 23.4 per cent, up from 22.9, and Europe at 2.7, against 2.2

Detroit's financial fortunes have also been helped by the turn in the US economic cycle over the past two years, which has boosted demand for sales and allowed manufacturers to cut back on costly rebates.

Vehicle sales dropped sharply in the 1991-92 recession and the car companies fell into heavy losses, with inefficient GM alone losing $12bn in its North American operations in just two years.

But over the past year profits at the Big Three have been rising sharply and the industry is forecasting US car and truck sales in 1994 of 15.3m to 15.5m units, up from 14.2m last year and 12.5m in 1991.

But Detroit cannot afford to relax. First, international competition remains intense, and on some measures Detroit still lags behind its Japanese rivals.

Second, it remains uncertain just how far the upswing in the US market has to go. Third, the US industry has yet to prove that it will not repeat its past mistake of excessive complacency when the economy is buoyant, leaving it ill-prepared it for the subsequent, inevitable downturn.

The Japanese, in particular, are still formidable competitors and their loss of US market share is due in no small measure to the sharp rise in the value of the yen relative to the dollar – a factor which could some day reverse itself. For now, however, a substantial price gap has developed in the US market between Japa-


nese vehicles and similarly equipped US ones.

The Japanese are shifting more and more of their production to the US and buying more parts in the country, both to protect themselves against yen exposure and to ameliorate US protectionist sentiments.

The trend was underscored in early September when Toyota, the largest Japanese manufacturer and the company feared most by Detroit, said it planned to raise its North American vehicle production by nearly 50 per cent. In July, Honda said it planned to spend $310m to expand its North American operations.

European luxury car manufacturers are also setting up production plants in the US: BMW has built a plant in South Carolina in order to make a sporty new vehicle, both for the US and export markets, while Mercedes is constructing a factory in Alabama to make its entrance into the fast-growing sports utility vehicle sector.

Both have been drawn to the US by the size of its market, skills of its labour force and its competitive manufacturing cost structure.

Exchange rate movements apart, several factors have helped Detroit claw back market share from foreign rivals. First, it has sharply improved its manufacturing productivity, though here it still lags somewhat behind the North America plants of Japanese companies.

There are also substantial efficiency differences between the Big Three. According to a recent report by Harbour & Associates, a Detroit consultancy, Ford's plants are the most productive of the trio, measured by workers per vehicle produced, followed by Chrysler, with General Motors lagging well behind. However, Chrysler more than makes up for the disadvantage with a more efficient vehicle development process.

Chrysler completely changed the way it developed vehicles at the start of this decade, setting up "platform teams" to develop cars. These bring together disciplines such as engineering and design to work simultaneously on a problem, rather than "throwing it over the wall" from one department to another.

Chrysler has also set up close links with suppliers, which are brought early into discussions about new models.

Ford and GM's relationships with suppliers are also in a

**Both Ford and GM are combining their US and European purchasing operations to cut costs**

state of flux. GM stirred up intense hostility when José Ignacio López de Arriortúa was appointed worldwide head of purchasing in 1992 and began demanding large price cuts from the group's parts suppliers.

He left GM in controversial circumstances to join Volkswagen last year, but the group's relations with suppliers remains fragile.

Both Ford and GM are combining their US and European purchasing operations in an attempt to cut costs, a course not open to Chrysler which has virtually no overseas operations.

Each of the Big Three is also retreating from the industry's traditional vertical integration, selling off parts operations and redistributing contracts to outside companies with better expertise, fewer distractions and lower labour costs.

The US recovery has also been helped by improvements in the past five years in the quality of vehicles emerging from Detroit's plants. On the whole, the quality still lags that of Japanese rivals, but the gap has narrowed to the point where customers are prepared to place more weight on areas where the Big Three do have an edge – in pricing and vehicle design.

Detroit, for example, has been ahead of the competition in exploiting a fashion for mini-vans (multi-purpose vehicles or people carriers) and four-wheel drive sports utility vehicles.

How long will the current US expansion continue? Over the summer a slow-down in sales had some pessimists wondering whether it might already be faltering.

But August saw a healthy 10 per cent year on year rise in vehicle sales and most analysts think the upswing could have two to three more years to run.

## Profile: General Motors

# New man Smith administers a tonic

General Motors, the world's largest vehicle manufacturer, is in the throes of a painful transformation aimed at restoring its troubled North American operations to health.

The group is battling to overcome decades of complacency, bureaucratic encrustation and manufacturing inefficiency which culminated in combined North American losses of over $12bn in the recession years of 1991 and 1992.

It was those losses, and the gradualist pace of change being pursued by Robert Stempel, GM's then chairman and chief executive, which prompted a boardroom coup in October 1992 and the installation of a new chief executive, Jack Smith.

The 56-year-old Mr Smith who, in the 1980s, played a key role in turning GM's European operations into the most profitable in that region, has moved with equal vigour in the US over the past two years.

Jobs have been sharply cut in GM's plant and white collar bureaucracy. The headcount of hourly paid workers had fallen from 329,000 at the end of 1990 to around 250,000, and analysts think it may be down to around 200,000 by the end of 1996.

**The biggest challenge facing the group is to start producing exciting new vehicles**

He has been selling off non-core businesses and shifting the supply of parts for GM vehicles from its huge, in-house components operation to outside suppliers, many of whom pay much lower wages and benefits to their workers.

He has also cracked down on outside parts suppliers, demanding from them cuts of up to 20 per cent in the prices written into their contracts.

He has also swept away much of GM's in-bred "old guard" top management, bringing in a younger generation of leaders, such as Rick Wagoner, 41, the recently appointed head of North American automotive operations.

All this, coupled with a cyclical recovery in the US vehicle market, has had a strong impact on GM's earnings. In the second quarter, the group reported best quarterly profits ever, of $1.92bn, more than double the $889m of a year earlier. North America contributed $723m to the bottom line, compared with a $33m loss in the second quarter of 1993.

International operations, which for years have helped offset disaster in North America, reported a $543m profit in the second quarter, up from a $306m profit a year ago.

However, GM's North American vehicle profit margin, at 2.7 per cent of revenues, still badly lagged behind its international automobile operations, which posted a 7.5 per cent margin. GM's internal goal is 5 per cent.

GM earned an average of $557 for each vehicle it sold worldwide, up from just $130 a vehicle a year ago, but well behind Ford, which earned £653 a vehicle, and Chrysler, which made more than £1,300.

Mr Smith says: "We recognise that we can't get complacent. We still have a lot of work ahead to improve our earnings power and achieve target earnings margins."

It could face several stumbling blocks along the way. First, GM's crack-down on suppliers prices, lead initially by the abrasive José Ignacio López de Arriortúa, who then left GM for Volkswagen, has left relations between the company and parts manufacturers extremely sore.

GM says the López campaign saved it $4bn in cumulative purchasing costs by the end of 1993, and that it has softened its abrasive edge. But some suppliers complain it is still pressing them too hard, and showing their engineering drawings to competitors, in the hope of getting lower contract bids. GM, in short, has the worst relations with suppliers in Detroit and over the long term that could hurt the company.

It also faces an extremely delicate relationship with the United Auto Workers' union, which is anxious to retain industry jobs. The company has suffered a rash of strikes at local plants, including a stoppage of 3,000 workers at an Indiana parts plant last summer.

However, behind the scenes, the UAW has been relatively co-operative with GM's ration-

Smith: cracking the whip on suppliers

alisation, for example by not forcing the company to honour an agreement that it will hire one new worker for every two who retire.

The biggest challenge facing the group is to start producing exciting new vehicles that customers want to buy, rather than the tired, look-alike models it churned out for much of the 1980s, and which cut its US market share from around 46 per cent at the start of the decade to one third today.

There are some encouraging signs. For example, the new Aurora, a sporty luxury sedan, should restore some shine to the badly tarnished Oldsmobile badge. So too should the fact that the Aurora is being sold by dealers with the same "no haggle" techniques which helped make GM's compact, experimental Saturn car a hit with buyers.

However, many of GM's other new vehicles have received a mildly appreciative, rather than enthusiastic, critical reception. To win back market share the group needs cutting edge appeal, and it does not seem there yet.

**Martin Dickson**

## Profile: Ford

# Sharpening reflexes

Ford Motor, in many respects the most successful US car company over the past decade, is in the early stages of an ambitious plan to create a global car company, which it hopes will cut its costs, quicken its reflexes and give it a sharp competitive edge.

The second largest US vehicle manufacturer, in its most sweeping reorganisation for 25 years, plans at the end of this year to merge two huge units – North American Operations and Ford of Europe – into a single operating unit, Ford Automotive Operations.

Until now, Ford has had a tradition of independent regional fiefdoms, with American and European operations developing cars of essentially the same size, but with different characteristics aimed at their local markets.

The shift is no small gamble by Alex Trotman, the British-born executive who took over as chairman of Ford at the start of this year. He says the upheaval is designed to "combine the resources of a large and very successful company with the speed and responsiveness of a small company."

The shake-up involves Ford reorganising into five vehicle programme centres (VPCs), four in North America and one in Europe. The European VPC, with research and engineering centres split between the UK and Germany, will be responsible for developing small and medium front-wheel drive cars for sale in Europe, America and Asia.

The other four VPCs, based in Detroit, will develop large, front-wheel drive cars, such as the Ford Taurus; rear-wheel drive cars, such as the Ford Crown Victoria; personal trucks, such as the Explorer sports utility vehicle, and commercial trucks.

While elements of the Ford plan have some parallels with initiatives at its US rivals, GM and Chrysler, no car company anywhere has such an ambitious global integration scheme under way.

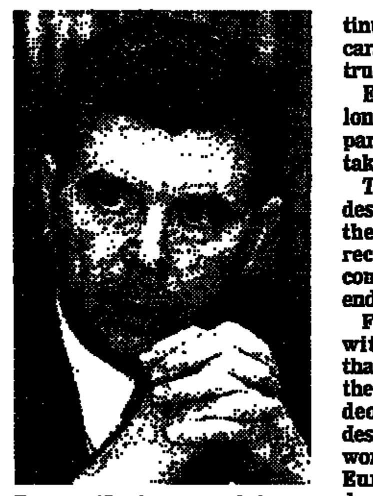
But Ford, which in many respects has set the pace for the US motor industry over the past decade, needs a sustained burst of innovation to maintain its competitiveness against rivals such as Chrysler, which has emerged over the past two years as particularly lean and aggressive.

Forced by financial crisis to cut costs in the early 1980s, Ford improved productivity in its plants long before GM and Chrysler and still boasts the most productive North American factories among the Big Three.

It has also scored some huge hits with consumers, notably with the Ford Taurus in the mid-1980s, which revolutionised US family car design and is currently the top-selling US car (though Honda's Accord is again challenging for that title). Other successes include the Explorer sports utility vehicle and the revamped sporty Mustang car.

These models helped Ford increase its share of the US car and light truck market from about 23 per cent in 1987 to some 25.4 per cent last year, though in the first six months of 1994 there was slippage to 24.9 per cent.

However, this success has yet to translate into adequate profits. In the first half of this year the group's net profits were $2.62bn, compared to $1.35bn in the same period of 1993, while its worldwide automotive profits quadrupled from $571m to $2.14bn.



Trotman: 'Our investment is in much more than hardware'

David McCammon, the group's treasurer, has says "our return on sales isn't to the level we believe it needs to be". He adds that Ford made only 69 per cent of Chrysler's profits on each vehicle it sold in the second quarter and needed to lower development and purchasing costs, and continue to shift production from cars to more profitable light truck lines.

External critics have also long complained that Ford is particularly slow in the time it takes to develop models.

The global reorganisation is designed to address some of these problems. Mr Trotman reckons it should save the company $2bn to $3bn by the end of the decade.

Ford has some experience with global integration, thanks to its development over the past six years of the Mondeo, the first "world car" designed to be sold around the world. It has been a big hit in Europe and is being introduced to the US this year.

Analysts sceptical about the global integration drive point to the long gestation and high costs ($6bn) of the Mondeo programme. But Mr Trotman says: "Our investment is in much more than hardware. We've been buying a new way of doing business for the long term."

**Martin Dickson**

## Profile: Chrysler

# Radical steps pay off

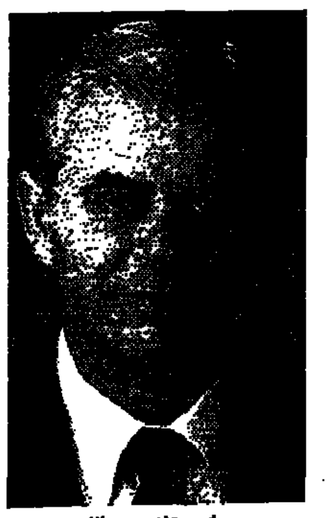
Chrysler, the smallest of the big three US carmakers, has been rejuvenated since the end of the 1980s by a far-reaching restructuring and a series of highly successful new product launches.

Virtually written off as a serious competitor in the world industry at the start of the 1990s, Chrysler is achieving record profits, and is being regarded by rivals, including some Japanese carmakers, as a new benchmark for global competitiveness in the world auto industry despite continuing concerns about the quality of some of its cars.

Last year the group achieved a record pre-tax profit of $3.5bn, a quadrupling from the $934m earned in 1992 and a big recovery from the pre-tax loss of $910m suffered in 1991. Pre-tax profits in the first half of 1994 jumped again by 57 per cent to a record $3.14bn.

Chrysler's reforms were driven by dire necessity, but Robert Eaton, group chairman and chief executive, insists Chrysler was "the first automaker to recognise that big changes were taking place in our industry, and we were the first to prepare for them.

"We began by cutting costs and eliminating waste while preserving future product spending. We sold non-automotive assets. And we began to get lean. But as we trimmed our workforce, we also reorganised into [chassis] platform teams that design cars faster and more efficiently."



Eaton: cutting costs and eliminating waste

Chrysler learned much from the production systems of the Japanese carmakers, and the lessons it has put into practice are commanding close attention in Tokyo, where the Japanese car industry itself is under pressure to cut costs.

Toyota has recently completed one of the most rigorous examinations it has ever carried out of a competitor's car with a so-called "tear-down" or dismantling of Chrysler's Neon small family car to analyse its low-cost construction. The leading Japanese carmaker was not complimentary about the Neon quality levels, but it praised the way the engineering had been simplified to cut cost.

According to Earl Hesterberg, vice-president of Nissan Motor in the US, the Neon is forcing Japanese carmakers to wonder if some of their stringent and costly quality measures are too high. "It looks like they [Chrysler] did some really smart things. We are all re-examining our product specifications now."

Faced by a renewed financial crisis at the end of the 1980s Chrysler was forced to take radical steps to reform its organisation, and one of the keys to its recovery has been the way it incorporates its suppliers into the design, development and engineering process for new vehicles.

"We view our suppliers as an integral part of a 'value-added chain . . . we call it the extended enterprise," says Robert Lutz, Chrysler president. "We treat suppliers as fully-fledged members of our platform [individual car range] teams. We have totally scrapped the old system of auctioning off contracts to the lowest bidder. Instead we set an overall 'target cost' for a given vehicle. And then we work with pre-selected 'suppliers-partners' to arrive at mutually agreed costs for that vehicle's parts and components."

A study released earlier this year by Harbour & Associates, the US automotive analysts, claimed that Chrysler was the most profitable vehicle maker in North America last year outearning its nearest competitor by more than $500 per vehicle.

Chrysler had the lowest total production costs of the five carmakers in North America examined in the survey, which attributed Chrysler's lead to dramatic improvements in product development costs, which had helped to offset Ford's advantage in assembly costs.

The study showed that Chrysler's product development costs were $357 less per car than Ford's and $290 less than GM's, giving Chrysler a big advantage when it launches new vehicles. Chrysler had also achieved significant cost savings in particular in its assembly operations and purchasing activities.

Despite the scale of the transformation there are still concerns that Chrysler quality levels have yet to match its financial performance. The group has introduced a series of new products in the past three years, but it still lags behind the competition when it comes to defects per car and customer satisfaction.

It failed to gain a single place in this year's list of top 10 cars for initial vehicle quality compiled by J.D. Power, the leading US automotive consumer research group. None of Chrysler's cars exceeded the industry average.

In this year's new car cus-

**Despite quality problems Chrysler has continued to perform strongly in the US market**

tomer satisfaction index all of the group's four brand names Chrysler, Dodge, Plymouth and Eagle were below the industry average, a position that contrasts sharply with its strong performance in the light truck market, where it matches Toyota at the head of the league table.

Its car operations have been troubled during the year by a series of product recalls involving some of its newest vehicles. During the summer the company formed a special group comprising its top 25 executives to seek solutions and to focus on improving quality.

Despite the quality problems Chrysler has continued to perform strongly in the US market. It increased its US car and light truck sales by 19.9 per cent last year to 2.047m in a market that rose by 8 per cent. It raised its market share to 14.7 per cent, the highest level for 23 years.

Chrysler is still overwhelmingly dependent on the North American market, having been forced by an earlier financial crisis to sell most of its foreign operations at the end of the 1970s. It is now aiming to double its retail sales outside North America, however, to 200,000 by the end of the decade. It increased sales outside North America by 45 per cent last year to 109,100 (including fleet and government sales) and exceeded 100,000 retail sales for the first time since it re-entered international markets in 1987.

It is still a small player in foreign markets, but according to Tom Gale, Chrysler vice-president of design and international operations, the company is launching more new products in international markets in the next three years than at any time in its history with the introduction of at least six new left-hand drive and four new right-hand drive models by the beginning of 1997.

**Kevin Done**

The Bosch National Curriculum

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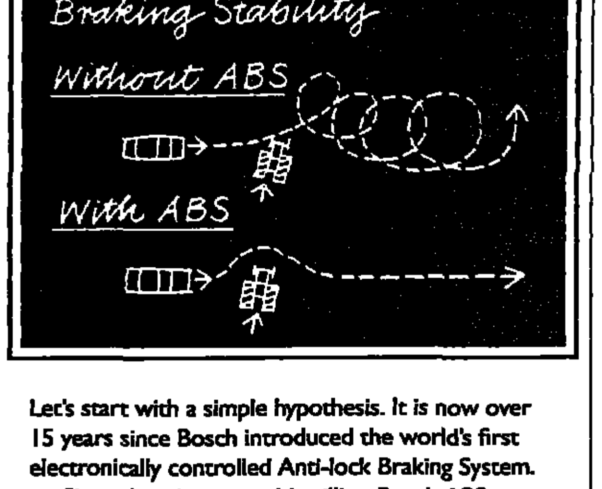


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Asia: **Ian Robertson** examines the market's renewed expansion

# Pacific Rim output on the up

*Congestion*, low incomes, government policy, pollution and underdeveloped roads will all hamper market progress in some Pacific Rim countries, but the average rate of growth will still be almost four times *that of the* west.

The new-vehicle markets of the region registered a 12 per cent increase, to 1.9m sales, in 1993 – and this did not include the large growth markets of China and South Korea, which *together accounted for more* than 2.8m sales.

Demand is likely to exceed 2m this year, and rise to over 3m (including 1.5m cars) by 2000, according to the Economist Intelligence Unit (*The Automotive Sector of the Pacific Rim and China Report R320*).

Last year's greatest volume growth occurred in Thailand, India and Indonesia, while the more mature and congested market of Taiwan reported a *slight fall in new vehicle sales.*

By the end of the decade, Thailand will overtake Taiwan to become the region's leading vehicle market, followed by India and Indonesia; while, with its gross domestic product now beginning to increase rapidly. Vietnam takes its first painful steps towards motorisation.

After slipping in the previous year, vehicle production in the Pacific Rim rose by 10 per cent, to over 1.6m units in 1993; and forecasts indicate that, by *the end of the decade, the* industry will be producing 3.2m vehicles a year.

The risks to investors in the region include potential political uncertainty. Thailand and the Philippines have had recent difficulties and, although stability appears to *have returned, it is by no* means assured. India has a host of potential problems, from its borders with Pakistan to states wanting to break away from the federation.

Only the Philippines, Indonesia and India have experienced any real economic down*turn in the last few years,* although demand has slowed in most countries.

All are expected to see considerable development of their infrastructures and economic wealth over the next few years. *Population* growth could present difficulties in the long term, particularly for India and Indonesia. Conversely, the prospects for Malaysia may be limited by a labour shortage.

Income levels are still low. The passenger car market usually begins to grow quickly when GDP per head reaches the current equivalent of about $5,000 a year. Only Taiwan has reached this level. In India GDP per head is only $250. By *this measure, for most of the* region any real volume opportunity, particularly for passenger car sales, remains some way off.

Some of the largest markets – notably Taiwan – remain *effectively closed to incoming* car manufacturers, while Japanese vehicle producers and technology already have a formidable hold in the car and light commercial vehicle markets of the region.

**Some of the largest markets – notably Taiwan – remain closed to incoming car makers**

In Indonesia, the Philippines and Thailand, Toyota will retain its dominance. In Malaysia, Mitsubishi and Daihatsu will control the market through their local producers. In Taiwan, there is a more *fragmented Japanese control,* although Mitsubishi monopolises the commercial vehicle sector.

In India, in spite of news of Volkswagen's latest partnership with Eicher Goodearth, the market is dominated by Suzuki's technology; while, in *Vietnam, Mitsubishi appears to* have gained the strongest role.

Although quality levels still fall short, Japan is aware of the potential of the region's low labour costs as a refuge from the high yen, and its policies have sought to satisfy co-operative ambitions across the *region, including the develop*ment of specific models for Pacific Rim markets.

Bangkok now has the world's worst traffic congestion. Kuala Lumpur is little better. And Taiwan is trying to restrict sales of vehicles until its mass transit system is complete.

Already infrastructure is lagging *behind* market growth, and the Tiger economies are suffering the penalty of little or no pollution controls.

Overcapacity and restricted growth prospects elsewhere in the mature markets of the *industry have inflated* interest in this emerging region.

Moreover, the rush of new investment into the Pacific Rim threatens to result in gross capacity in excess of foreseeable demand. In the latest market to emerge, Vietnam, the government is already concerned about over-supply as Suzuki, Toyota, Volkswagen and Peugeot SA join others in the latest attempt to break into the market.

With time running out, opportunities for new entrants *in the region centre on the* commercial vehicle sector – notably pickups and light vans.

The other growth opportunity is in components. As the volume of vehicles produced in the region grows, the components industry will need to restructure and rationalise.

*New entrants also offer* access to advanced technology – essential for markets such as Malaysia or Taiwan with ambitions to step up exports of their own national vehicles.

In some markets, government-initiated programmes are stimulating development of the *automotive sector. In India,* the removal of stifling controls in 1991 heralded a period of transformation for the industry. During the 1980s there were only three vehicle manufacturers in the country, producing around 120,000 vehicles per year; now there are 13, with installed capacity of almost 600,000 units.

*Sales* were lifted last year, when excise duties were reduced from 55 per cent to 40 per cent, resulting in lower car prices and further reductions in the tax burden are expected.

Competition for industry leader Maruti/Suzuki is growing. Other local producers are keen to enter the smaller car segment: Mahindra, Telco, Bajaj and Escorts. In addition, Premier, already the second largest supplier in the car market, has spent much of the past few years exploring new opportunities.

Hindustan Motors, the third main supplier in the car sector, is working on a rival in collaboration with Germany's Opel; while Eicher will start production with Volkswagen in 1997. *A new entrant, Sipani, has also* signed an agreement with Rover to produce the Montego. Other challenges come from Mercedes-Benz, Daewoo and, significantly, from the motorcycle industry.

Japan's grip on the Indonesian market is overwhelming *and getting tighter.* Japanese producers control 99 per cent *of the commercial vehicle mar*ket and over 80 per cent of the smaller car sector. They are investing in new facilities and introducing new models. They have increased their shares in local assemblers, and are supporting the Indonesian government's plans to develop a regional Asean components industry.

Their dominance of the market has forced many weaker competitors – both US and European – to withdraw in recent years. Outstanding growth prospects are still luring newcomers in, however, not least Volkswagen's Seat and Skoda, Proton, Hyundai, Opel and Kia.

In Malaysia, the government is keen to build on the success of Proton. A second national project has just started production, making the Kancil in partnership with Daihatsu. A third project is planned involving pickups with Hyundai, and a fourth is on the drawing board.

The Philippines government is trying to stimulate the sector with the development of a smaller, inexpensive people's car.

This has brought Kia, Honda, Daihatsu, Fiat and Daewoo into the market as assemblers. The car development programme will regulate the industry until at least 1998, when local content requirements may be scrapped, with a radical change in market structure expected to follow.

In Taiwan, industry attention centres on the Gatt, which could mean that import tariffs on vehicles and parts will have to fall quickly, with devastating implications for local producers. The challenges to the country's export drive are also mounting.

To boost the local industry and to meet the conditions of the GATT, the government in Thailand is liberalising the sector.

In 1990, it lifted a ban on imports under 2.3 litres. Vehicle taxes were cut in the following year, and in November the government signalled that it was to end the requirement for assemblers to have local stakeholders.

In Vietnam, still at a more embryonic stage, several vehicle manufacturers are already queueing up to join the Mekong Corporation (Ssangyong/Fiat Iveco) and Vietnam Motors Corporation (Colombian *Motors of the Philippines*) in a bid to share the expected growth in the region's newest vehicle market.

Mitsubishi, Mercedes-Benz, Renault, BMW and other South Korean suppliers have all *sought to make substantial* investments, and look likely to succeed. Others, including Suzuki, Toyota, Volkswagen and Peugeot SA, are also trying to break into the market, but finding entry more difficult.

**Pacific Rim: sales and forecast sales of new motor vehicles (000s)**

| | Taiwan | Thailand | India | Indonesia | Philippines | Malaysia | Vietnam | Total |
|---|---|---|---|---|---|---|---|---|
| 1990 | 9,484.0 | 9,302.7 | 9,357.7 | 9,274.5 | 9,132.7 | 9,165.9 | 91.8 | 91,719.3 |
| 1991 | 9,487.0 | 9,268.6 | 9,344.9 | 9,261.4 | 9,118.6 | 9,181.9 | 90.8 | 91,663.2 |
| 1992 | 9,547.1 | 9,363.0 | 9,330.3 | 9,169.5 | 9,146.1 | 9,145.1 | 96.0 | 91,707.1 |
| 1993 | 9,540.1 | 9,456.5 | 9,382.0 | 9,214.2 | 9,163.6 | 9,154.4 | 97.5 | 91,918.3 |
| 1994 | 9,574.0 | 9,435.0 | 9,405.2 | 9,277.5 | 9,172.0 | 9,175.0 | 99.7 | 92,048.4 |
| 1995 | 9,596.0 | 9,460.0 | 9,430.0 | 9,313.0 | 9,183.0 | 9,189.0 | 913.8 | 92,184.8 |
| 1996 | 9,604.0 | 9,490.0 | 9,460.0 | 9,353.0 | 9,190.0 | 9,209.0 | 918.8 | 92,324.8 |
| 1997 | 9,618.0 | 9,540.0 | 9,490.0 | 9,388.0 | 9,199.5 | 9,230.0 | 928.2 | 92,494.7 |
| 1998 | 9,632.0 | 9,585.0 | 9,530.0 | 9,430.0 | 9,210.0 | 9,243.0 | 936.2 | 92,656.2 |
| 1999 | 9,646.0 | 9,625.0 | 9,570.0 | 9,482.0 | 9,223.0 | 9,255.0 | 942.7 | 92,843.7 |
| 2000 | 9,660.0 | 9,665.0 | 9,610.0 | 9,540.0 | 9,236.0 | 9,266.0 | 951.5 | 93,028.5 |

*Source: EIU: The Automotive Sector of the Pacific Rim and China*

Japanese cars in Hanoi: the Vietnamese government is already concerned about over-supply Sarah Murray

**Barbara Harrison** on new BMW and Mercedes Benz plants in the US

# The Germans head west

"Build the plant, and they will come." So could have said BMW and Mercedes Benz about suppliers following in their paths to invest in the US states of South Carolina and Alabama, respectively.

For these investment hungry south-east states, the collateral investment by the suppliers to the two German luxury carmakers is a dream come true. With their new US plants, both BMW and Mercedes are positioning themselves to compete more fiercely in the US, the world's largest car market, and to do so with far lower production costs than in pricey Germany.

The hourly wage of German workers costs BMW, for example, about $25, whereas in South Carolina it will pay $12 to start and $16 after two years. Mercedes reportedly estimates that building the new car in Alabama will cost 30 per cent less than if built in Germany. Both manufacturers intend to export the cars.

But it is not only labour that will come cheaper for the two German companies. They have designed advanced state-of-the-art plants to pare down on their own relatively more expensive manufacture or assembly of numerous component parts. In this, they are leading the way in an industry that is increasingly de-integrating.

**Both firms will only supply critical systems. The rest will come from component producers bidding for contracts**

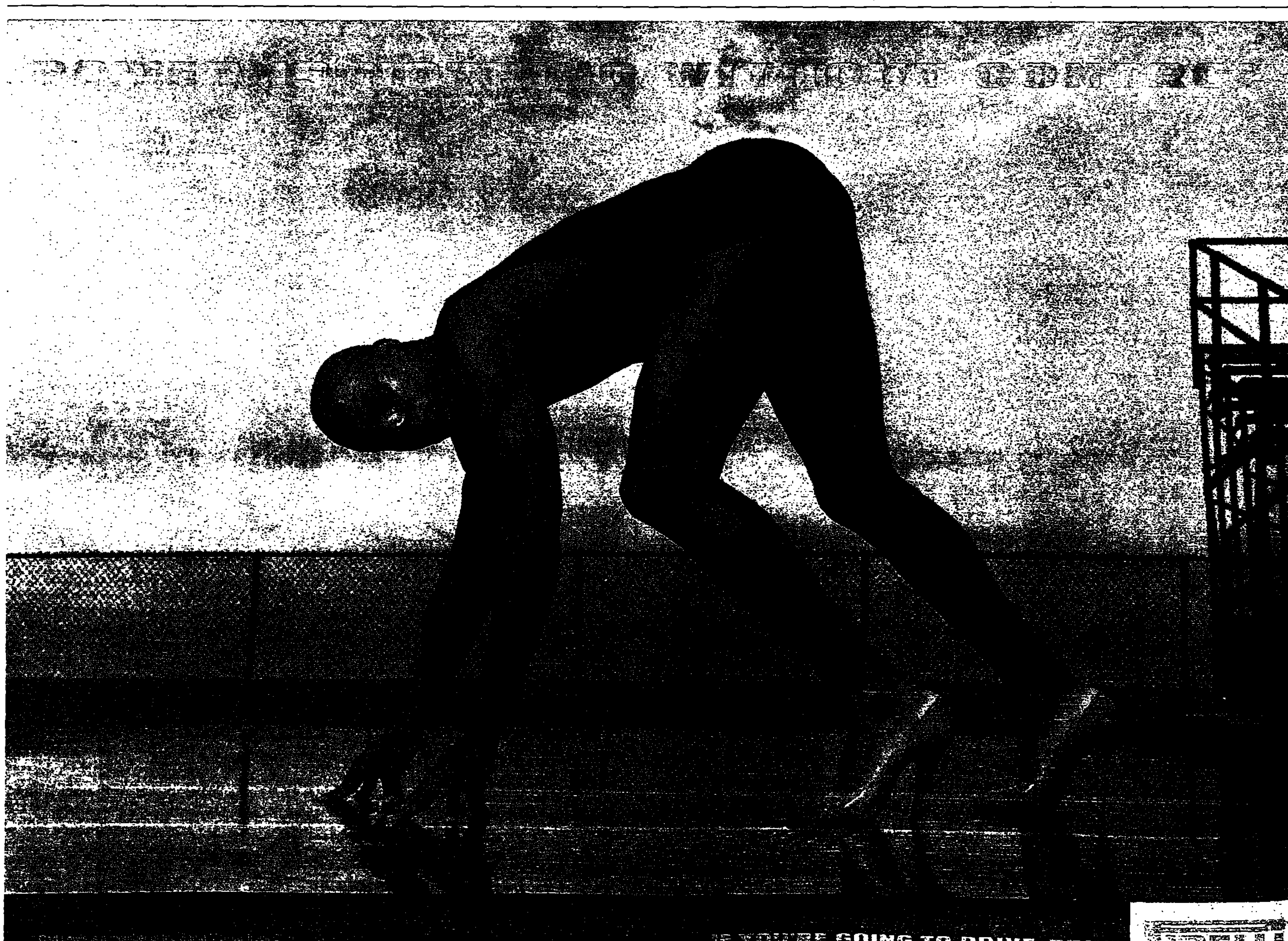
Both firms will only supply critical systems – such as engines, transmissions and suspension – and the rest will come from component manufacturers, which bid for contracts. To assure quality and timeliness, the two German car makers are requiring their suppliers – a majority of which are US companies – to work closely with them in the design of the components.

Mercedes has gone slightly further than BMW in this regard. Its plant in Alabama will basically only bolt and weld together a series of modular systems of parts that are already assembled.

BMW is spending at least $300m on its plant in Greer, South Carolina, which is expected to produce its first car before the end of September. The plant, which starts making 318i's and 325i's and next year adds a new small two-seater sports car, will employ 2,000 people and produce 400 cars per day by 1998.

Mercedes has construction of a $300m plant under way in Vance, Alabama in the western county of Tuscaloosa. It will start producing a sports utility vehicle (akin to a Range Rover) in early 1997.

Continued on Page 11



Japan: **Michiyo Nakamoto** examines the painful reversal in the industry's fortunes

# One bright spot in a sluggish market

For the past few months, employees at a Toyota car factory in Motomachi, Nagoya, have been putting in extra hours to keep up with strong demand.

The Motomachi factory is the manufacturing base for a 4-wheel-drive recreational vehicle called RAV4, which has been a spectacular success in the five months since it was launched.

In the RAV4, Toyota hit on a formula for success that reflects the fundamental changes Japan's car market has seen in the past years.

Its off-roader filled a gap for Japanese consumers. It is a different kind of passenger car, available at a much lower price than they had come to expect.

However, the RAV4 has been a conspicuously bright spot in Japan's otherwise stubbornly sluggish auto market.

Following three years of falling demand, the Japanese car market suffered another 3 per cent fall in domestic demand in the first half of this year to 3.3m units, while exports declined by 20 per cent to 2.2m.

In 1993, domestic sales of new passenger cars fell to 4.2m units, down 5.7 per cent from the previous year, while 1992 saw an 8.5 per cent decline.

*The reversal in the Japanese* automakers' fortunes has been all the more painful, as it followed three years to 1990 of spectacular growth. During that period, new car sales jumped 150 per cent, Yutaka Kume, chairman of Nissan, the country's second largest carmaker, said.

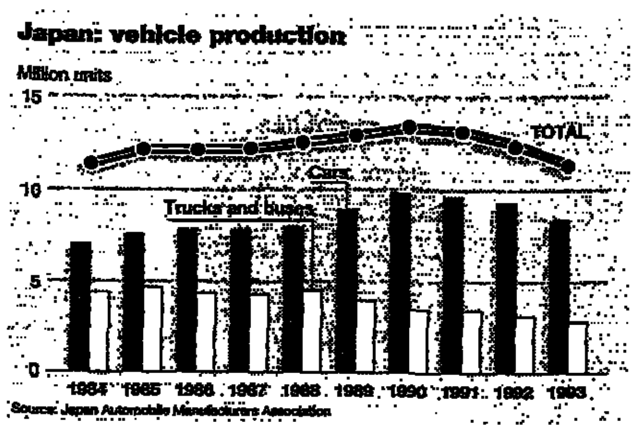
Three years of falling demand have, however, wiped out any hope Japanese car makers may have had for a return to the boom years when prestige, rather than price, was the main concern for the domestic market.

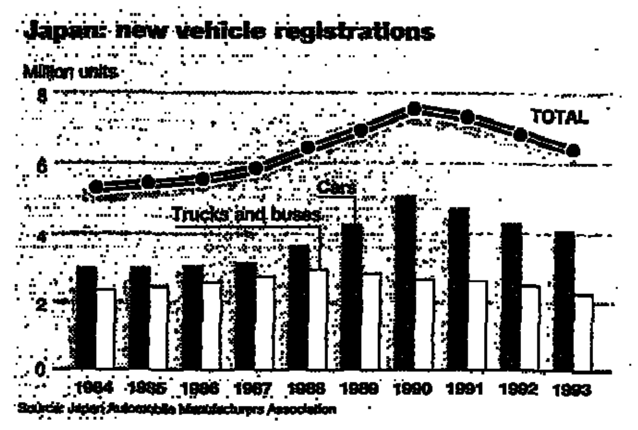
Instead, given the country's shrinking population growth and a trend to greater economy, Japan's market is expected to stabilise at an annual growth rate of about 1-2 per cent, compared with an average of 9 per cent in the three years to 1990, Mr Kume said.

Furthermore, competition will intensify as the greater price competitiveness of foreign-made cars in a high-yen environment has opened up Japan's domestic market to a high level of imports.

**Amid these changes, Japanese carmakers have been conducting a fundamental review their entire operations**

In the first six months of this year, registrations of imported automobiles rose 40 per cent to nearly 138,000 units, according to the Japan Automobile Importers Association. As awareness and availability of foreign cars increases, their popularity is expected to continue growing.




At the same time, exports have been in steady decline, for the eighth consecutive year in 1993.

The trend is in part a result of the falling competitiveness of Japanese cars overseas due to the yen's appreciation, but more fundamentally as a result of increased production overseas.

That trend is expected to accelerate further, as political pressures, the comparatively high costs of manufacturing in Japan and the growing necessity of developing models that are suited to particular regional needs are making it imperative that Japanese carmakers further globalise their operations.

Amid these structural changes, Japanese carmakers have been conducting a fundamental review their entire operations.

"In this market environment, we at the Japanese automobile industry who enjoyed a continued expansion in production up until recently, are now pressed to undertake a major restructuring," Mr Kume said.

One pillar of restructuring will be increased globalisation of operations as carmakers come under pressure from the yen to reduce their dependence on Japan as a world manufacturing base, and to seek growth in overseas markets.

"From now on, growth for Japanese auto makers will come mainly from outside Japan," said one industry analyst.

In response, Japanese carmakers have been building their operations in south-east Asia and China, and strengthening their manufacturing capabilities in western markets.

Toyota recently made clear its intention to increase local vehicle production in North America by more than 50 per cent, to double engine production, and to increase exports from the region to other countries, including Japan, by 60 per cent.

Production of the popular pick-up truck sold in the US will be moved entirely to North America.

Honda, meanwhile, aims to give more autonomy to its global manufacturing bases and lessen dependency on Japan.

The company will increase spending in North American facilities by $310m in a bid to boost manufacturing and R&D capacity. Exports from North America are expected almost to double this year, and double again by the turn of the decade.

In Europe, Honda plans to increase capacity at its UK manufacturing plant so that about half the cars sold in Europe could be produced there.

At the other end of the spectrum, Mazda has been left somewhat behind in the move to globalise. It is particularly vulnerable in Europe, where plans to share production facilities with Ford, the US auto maker which owns more than 24 per cent in Mazda, collapsed early last year.

The other pillar of restructuring in the Japanese auto industry is the adjustment of domestic production.

One important aspect of Toyota's success with its RAV4 has been the company's ability to reduce costs by increasing commonality of parts with other cars, and keeping the car very simple.

**In the first six months of this year, registrations of imported automobiles rose 40 per cent to nearly 138,000 units**

"We decided to make the car as simple as possible and not to include anything unnecessary," explained Masakatsu Nonaka, chief engineer of the RAV4.

By restricting the car to one engine, one body and one grade, a revolutionary step for Toyota, the car maker was able to substantially lower costs.

Other Japanese carmakers have been pursuing the same goal, and some have enjoyed similar successes to Toyota.

However, shifting production overseas and reducing costs will not alone be remedy for their woes.

Japanese carmakers have yet to face up to the overcapacity that remains in the domestic market.

While overall sales of new cars have recovered slightly in the past months, helped by a long-awaited tax cut, domestic demand is unlikely to recover to the levels seen during the peak years, while exports will continue to decrease as production is shifted overseas. As a result domestic production, which fell from almost 13.5m units in 1990 to 11.2m last year, is not expected to recover significantly.

Even while recognising the problem, Japanese auto makers have been reluctant to implement full-scale capacity cuts.

At the lower end of the manufacturing pyramid, smaller sub-contractors are showing the strains of reduced domestic production. Since the beginning of last year, 127 auto parts suppliers in Japan have collapsed, according to Teikoku Data Bank, a private research company. Sooner or later, the wider impact of the structural changes facing the industry is likely to be seen higher up the pyramid.

Korea: **John Burton** on the ambitions of the country's Big Three

# Expanding, but it's a gamble

South Korean car manufacturers are taking perhaps their biggest gamble since the industry was established in the 1960s by doubling their production capacity to at least 6m vehicles annually by 2000, with a third of this amount manufactured abroad.

The rapid expansion is risky when the global car industry is already struggling with surplus production. But Korea's leading industries have traditionally been addicted to large-scale production to achieve economies of scale in spite of dire predictions about adverse market conditions.

Korea's three leading carmakers – Hyundai, Kia and Daewoo – are hoping to repeat the success of the country's shipbuilding, electronics and petrochemical companies, which added massive production capacity during the last five years and are now reaping the benefits by quickly filling rising global demand.

The expansion of car production has the support of the government, which selected the motor industry as a vital sector in 1990 and gave it easy access to state-subsidised bank loans and overseas borrowing privileges to raise capital for the capacity increase.

If the expansion goes according to plan, Korea will become fourth biggest car manufacturer in the world by end of the decade, with its three main companies being included among the top ten carmakers.

Hyundai wants to increase its production from 1.16m vehicles this year to 2.3m in the year 2000. Production will double to 1.5m at Kia by 1997 and quadruple to 2.2m at Daewoo by the end of the decade.

Ssangyong, which produces commerical trucks and sports vehicles, also plans to start car manufacturing in late 1996 in cooperation with Mercedes-Benz. Its initial production of 50,000 cars is expected to rise to 150,000 by 2000.

"The Koreans are contradicting the global trend toward downsizing," said Don Lee, motor industry analyst at BZW Securities in Seoul. "They are *justifying the expansion* by going into new markets in the developing world."

Exports now account for only a quarter of Korean car production, but manufacturers want to raise the ratio to 40 or 50 per cent within the next several years as growth in the domestic market slows down to an annual rate of 10 per cent from 40 per cent in the late 1980s. The weakness of the Korean currency against the strong yen is likely to benefit Korea in its export plans.

**If the expansion succeeds, Korea will be the fourth biggest car manufacturer in the world by end of the decade**

Overseas sales in developing countries accounted for 46.2 per cent of exports during the first half of 1994, while shipments to North America accounted for 37.4 per cent of exports and western Europe 16.4 per cent.

The car companies are concentrating on increasing their *market share in the developing* world by building local assembly plants to avoid possible tariff barriers. Hyundai has signed joint-venture agreements in Indonesia, the Philippines, Egypt and Zimbabwe to produce a total of 300,000 cars abroad. Kia will also produce 300,000 cars overseas through planned facilities in Indonesia, Mexico, India and Morocco.

Daewoo has set a more ambitious target of producing 1m cars in the developing world to take advantage of the region's low wages. Joint ventures have been established in Uzbekistan, *Iran, India and Vietnam.* Daewoo is now negotiating to build a car parts factory in China as the first step toward gaining approval from Beijing for the construction of a car factory in what is potentially its largest overseas market.

But the Korean carmakers are not neglecting the US and Europe. While Hyundai already has a strong presence in these markets, its rivals are following suit.

Kia began establishing distribution networks in the US and Europe last year and recently signed an agreement with Karmann of Germany to produce its Sportage four-wheel drive vehicle for the European market from next year.

Daewoo has acquired a car plant in Romania to supply vehicles for its independent West European dealer network, *which will begin operations in* 1995. It will also enter the US market in 1996.

But while Korean carmakers are aggressively expanding abroad, they must worry about the opening of their strongly protected home market to imports. The US and the EU are demanding that Korea reduce duties and non-tariff barriers that limited the sale of foreign cars in Korea to slightly less than 2,000 last year, only 0.19 of the total market.

Seoul recently agreed to cut the car tariff to 8 per cent from *10 per cent and ease restric*tions on TV advertising and distribution outlets, but the concessions have still not satisfied Washington, which has led the campaign against the car import restrictions.

Even if further concessions are made, sales of US and European cars in Korea are not likely to represent much of a threat to domestic manufacturers since the foreign models will be concentrated in the executive car segment.

A more serious worry would be abolition of the two decade-old ban on car imports from Japan. It remains undecided whether the Korea will lift the ban in 1997 as part of a programme to improve trade relations with Japan. But Tokyo is expected to demand this action if Korea wants to gain membership in the Organisation for Economic Co-operation and Development in 1996.

The irony is that the Korean motor industry has largely developed due to technical help provided by Japanese car manufacturers. Hyundai has a partnership with Mitsubishi, Kia *with Mazda and Ford, and Dae*woo recently linked up with Honda after dissolving its joint venture with General Motors.

China plays a waiting game

# Steady growth is the goal

China could not be accused of lacking ambition in formulating a policy to meet rapidly increasing demand for cars *and commercial vehicles into* the next century.

The long-awaited Policy for China Automotive Industry Enterprises, released in July, sets the goal of making a hitherto fragmented, low-volume, poor-quality sector into one of the country's "pillar" industries.

Policy-makers appear to have grasped the importance of a vibrant automotive sector to the economy as a whole. But in the interests of orderly development, they are delaying approvals of new foreign *entrants until 1996, pending a* consolidation of existing plant and facilities.

Beijing also wants to strengthen the components sector, a weak link in its vehicle-building industry. Foreign car companies such as Ford, General Motors and Toyota have been told that to "qualify" for entry to China as fully-fledged participants in passenger car manufacturing they must first invest in the components industry.

Since China opened its doors to foreign investors in the *1980s, a few international car*makers, led by Volkswagen, have established a foothold. The German company is producing the Santana (a copy of its Passat produced in Brazil) in Shanghai and Audis and Jettas at a plant in Changchun, northern China.

Other foreign participants include Chrysler, building the Jeep Cherokee in Beijing; Daihatsu, producing a minibus in Tianjin; Toyota and General Motors which are building commercial vehicles in Shenyang; Peugeot which has a *venture assembling 504s in* southern China and Citroën which is producing its ZX small car near Wuhan.

Apart from Volkswagen, which built about 150,000 vehicles in China last year, the others are still relatively small-scale operators. Citroën, for example, assembled just 13,000 of its ZXs in 1993.

China's output of passenger and other vehicles falls well short of demand. In 1993, *234,000 passenger cars* were produced of a total 1.3m vehicles manufactured locally. Some 310,461 vehicles were imported, according to official figures, but this did not take account of thousands more that were smuggled in.

**By 2000, demand for cars is expected to exceed 2m, with local car-makers supplying 90 per cent of the market**

By 2000, domestic demand *for passenger cars is expected* to exceed 2m with local car-makers supplying 90 per cent of the market under the terms of the new plan. At present, car-sales to individuals as opposed to companies and work units account for about 1 per cent of the total, but demand is building among an increasingly affluent bourgeoisie.

In its efforts to promote the development of the automotive sector, the government has laid down guidelines envisaging the development by the *end of this century of two or* three "large-scale" vehicle-producing conglomerates and six or seven "backbone" automotive enterprises.

This formula, aimed particularly at encouraging economies of scale, leaves the door open for new entrants after the present freeze expires in 1996. China is making little secret of the fact that it is anxious to involve the big American and Japanese producers.

*Ford and GM are already* establishing a strong presence in the components sector. Ford, for example, recently signed agreements with components makers in Shanghai to produce plastic automotive items such as instrument panels and to make safety glass. Ford plans to invest $50m in these ventures.

GM's Automotive Components Group (ACG) recently established a headquarters in Beijing and is seeking to enlarge its involvement in the components sector where it is engaged in joint ventures and licensing arrangements.

While China's new automotive policy is aimed at encouraging through tax and other incentives the growth of large-scale producers, it is also directed at rationalising a highly-fragmented local sec*tor. There are, for example,* 120-130 vehicle-makers of one sort or another operating in China, but many are tiny, producing just a few vehicles each week.

According to a recent study, quoted by the official China Daily newspaper, two-thirds of *China's vehicle manufacturers* lost money in the first half of this year, and a number were heading for bankruptcy. The highly-fragmented components sector is in a similarly parlous state, and many small producers are expected to go out of business under the new policy, with its emphasis on high volume production and economies of scale.

In spite of the freeze on new entrants to assembly and manufacturing until 1996, foreign car makers are extremely active in ongoing discussions *about new projects. These dis*cussions are expected to lead to a number of agreements over the next six months or so.

Chrysler, for one, is believed to be close to finalising deals to produce minivans in Guangdong and Hainan provinces. A number of carmakers, including Toyota, Ford, GM and Mazda, are involved in discussions with the Shanghai Automobile Industry Corp for a minivan and passenger car project in the Shanghai area.

Toyota has also been in discussions with the Tianjin *Automobile Industry Corp on* possible ventures. Tianjin Auto is the partner of Daihatsu in the production of the Charade small car and minibuses. Toyota has a 16 per cent stake in Daihatsu. According to Japanese press reports, Toyota hopes by the end of this year to start building a factory near Tianjin to produce engines, transmissions and other key components for cars that would be sold domestically. Toyota is reportedly proposing that its Corolla small car would be the most *suitable product for the China* market.

Tony Walker

Brazil

# Rising imports cause anxiety

Tumbling car prices triggered by tax cuts and improved productivity are unleashing pent-up demand in Brazil, which was the fastest-growing big market for vehicles last year.

Despite this good news, locally-based manufacturers are worried about the rise in imports, as well as a continuing productivity gap with foreign competitors, some of which are considering whether to move production to Brazil.

After averaging 800,000-900,000 vehicles a year in the 1980s, Brazil's manufacturers churned out nearly 1.4m vehicles last year, up 36 per cent on the year before. This made the industry Latin America's biggest producer and No 10 globally. Production this year is likely to approach 1.6m vehicles.

Exports within the Mercosur common market, which comes into force on January 1 and will include Brazil, Argentina, Uruguay and Paraguay, may also increase. Last year Brazil exported 218,000 vehicles to Argentina compared with 83,000 in 1991.

The Mercosur countries are negotiating a transitional agreement for the car industry, which will cover rules on regional content and a common external tariff. Companies are investing to standardise and integrate production between Brazilian and Argentine plants.

However, some analysts believe that the overvaluation of Brazil's new currency, the Real, and Argentine worries about its trade deficit raise uncertainties about vehicle exports to Argentina in the future.

**Executives believe the big growth potential is in the local market, where there are just five cars per 100 inhabitants**

Brazilian car executives believe the big growth potential is in the local market where there are just five cars per 100 inhabitants compared with 11 in Argentina and 30 in Europe.

Domestic demand has grown as local car makers have had to compete since the economy was opened up at the beginning of the decade. This cut tariffs and imported vehicles have grown from 15,000 in 1991 to a likely 120,000 vehicles this year, forcing local manufacturers to improve productivity and quality.

Productivity at Fiat, General Motors and Autolatina, the holding company for the joint operations of Ford and Volkswagen, has increased by an average 17 per cent a year this decade due to higher volumes combined with a reduced workforce and the contracting out of services. Quality has also improved, with defects falling by 50 per cent over the period, according to a report by consultants Booz-Allen earlier this year.

More importantly, agreements between the government and the industry since 1992 have cut taxes and profit margins. Taxes have fallen by an average 22 per cent, leading to a dramatic fall in prices, particularly for 1,000cc cars where the reductions were concentrated.

The price of VW's 1,000cc Gol car has fallen from $13,000 to just over $7,000 in the past three years, says Pierre Alain de Smedt, Autolatina chairman.

But there could be problems ahead for Brazil's manufacturers. Despite the productivity gains, they are still 10 per cent less efficient than Europeans and further behind the Japanese, says Booz-Allen. Thanks to the growing local market, they face the threat that competitors who are now importing cars could start to produce in Brazil. Nissan and Toyota are thought to be planning investments.

The companies are also concerned about the rise in imports and are calling for quotas to be imposed, which the government has so far refused. They argue that, despite the tax cuts, Brazilian vehicles are still overburdened compared with foreign cars.

Patrick McCurry

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Mexico: recovery in the US has caused exports to rise

# Nafta makes its mark

The North American Free Trade Agreement, implemented only nine months ago, has already had a powerful impact on the car and truck industry in Mexico. Both imports and exports are sharply up, while companies not previously operating in the country have announced plans to set up manufacturing operations.

In the seven months to July, Mexico exported 304,923 vehicles, primarily to the US, an increase of 26.6 per cent on the same period last year. Meanwhile, imports were still relatively small at 25,277 vehicles, yet this represents a 454 per cent increase from the year before. The US Big Three carmakers – General Motors, Ford and Chrysler – almost completely monopolised the import boom.

The increase in exports is primarily attributed to economic recovery, and therefore rising demand, in the US. But the growth in exports to the US, as well as Japan, is expected to continue over the medium term as carmakers invest some $1.6bn in 1994 alone to increase capacity and modernise plants. Nissan *recently announced that it* would move its entire Sentra production line from Japan to its Aguascalientes, Mexico, plant. This new factory will supply the US, Mexican, Japanese and other Asian and Latin American markets.

The rise in imports is primarily due, as stipulated in Nafta, to a loosening of the complex formula which linked a company's ability to import with its level of exports. GM has been highly successful with its new line of Chevy subcompacts brought in from Spain. Based on its first few months on the market, the Chevy could be a formidable challenger to the Volkswagen Bug, the market leader. The US company now says it may set up a Mexican production line for the budget car.

**In the seven months to July, Mexico exported 304,923 vehicles, an increase of 26.6 per cent on the same period of 1993**

Ford and Chrysler are taking shots at Nissan's Tsuru, the leader in the compact class, but in different ways. Chrysler is importing its US-produced Neon, while Ford has begun to sell previously for-export-only Escorts from its Hermosillo plant. This arrangement gives *Ford the ability to use its* import quota for high mark-up luxury cars.

During the Nafta negotiations, Mexico fought hard for low domestic content rules in order to encourage newcomers to set up shop and export to the US. With the agreement's stiff 62.5 per cent domestic content stipulation, Mexico has been pleasantly surprised that newcomers have announced $300m investments this year to initiate operations. This new production will be mostly for the domestic and Latin American markets.

BMW, the German carmaker, will account for $176m of that sum as it sets up domestic production, scheduled to come on line in 1995. Production at this new plant will be southerly oriented, with small and mid-size models destined for the Mexican market and other Latin countries. There will be only limited integration with the new BMW plant to be built in the US.

Honda is expanding its motorcycle plant in Guadalajara to include facilities for *assembling cars for the domes*tic market and Latin American exports. At first, cars will be made from part-kits supplied by Honda plants and contractors in the US, but Mexico is expected to become an important parts centre as Honda works towards its goal of production of at least 75 per cent of its North American sales from plants in the continent.

Mercedes-Benz is setting up a luxury car production line at its rapidly expanding truck plant and is building a new passenger bus factory in northern Mexico in an attempt to penetrate the US market. Mercedes' main competitor in the truck and bus business, Dina, recently bought Motor Coach Industries, the US market giant, and has spoken to Toyota, Hyundai and Fiat about setting up a joint venture to expand into car production in Mexico.

Despite the optimism of the new players and plans to increase capacity among established competitors, domestic sales continue to fall amid general economic uncertainty and tight credit. Domestic sales dropped 3 per cent in the first seven months of the year, to 343,207 vehicles. The launch of carmakers' own in-house retail credit divisions such as GMAC and Ford Credit, a by-product of the Nafta financial services regulations, should lead to some market recuperation towards the end of the year.

Ted Bardacke

Sweden: **Hugh Carnegy** finds the two niche producers profitable but introspective

# Cash-rich Volvo wary of new alliances

Volvo and Saab Automobile, Sweden's two car manufacturers, are once again savouring the rare taste of profits after several turbulent years of losses, heavy restructuring and, in Volvo's case, the trauma in 1993 of its aborted plan to merge with France's Renault.

Volvo, still Sweden's biggest manufacturing company, is at group level enjoying a resurgence of profitability to rival the pre-recession boom days of the mid- and late-1980s. In the first six months it posted a pre-tax profit of SKr9.02bn, compared with SKr380m in the same period last year. Although inflated by capital gains of SKr4.08bn, the operating profit of SKr4.47bn was far ahead of the SKr166m returned in the first half of 1993.

A 20 per cent rise in unit car sales during the period, to 189,000, was an important factor in the group result. The car division, which has stacked up heavy losses throughout the 1990s, finally returned to an operating profit of SKr1.47bn from a loss on SKr70bn last time. Sales were particularly strong in the US, Volvo's biggest market, where the company outsells all other European car makers.

At Saab, the picture is less dramatic but no less significant, given the trouble it has been in since the US's General Motors bought a half share in the company in late 1989 and took over the management.

In the second quarter, as the benefits fed through of the successful launch last year of the new Saab 900 car, Saab produced its first quarterly profit for five years, and the first since GM became joint owner with Sweden's Saab-Scania. This allowed Saab to show a first-half profit of SKr104m – a modest figure, but a very welcome relief for GM after accumulated losses since 1989 of SKr11bn and capital injections of more than SKr8bn.

**The aim is to break out of the company's traditional market appeal based on safe, reliable but rather dull cars**

But if the two companies are now able to look to the future with more confidence than they have for some time, there remain big question-marks over what shape they will be in when the motor industry cycle takes its next downturn.

Volvo, in particular, is still in the process of a deep strategic rethink, following the collapse last December of the plan to merge with Renault. Pehr Gyllenhammar, the former chairman, wanted, in effect, to transform Volvo into a diversified industrial group through moving the car, truck and bus operations into a merged Renault-Volvo operation in which Volvo would have a 35 per cent share. The two companies, which had operated a strategic alliance since 1990, were to develop jointly their new car model ranges for the mid- and late-1990s, sharing as many systems and components as possible, including common "platforms" or chassis.

The rejection of the merger by shareholders and senior management – and the resignation of Mr Gyllenhammar – threw previous assumptions about product development into the air. The new Volvo chairman, Bert-Olof Svanholm, says it set back the product development process at least six months.

Under Mr Svanholm and Sören Gyll, the chief executive, Volvo's new overall strategy is to sell off up to SKr40bn worth of non-core assets and concentrate on its core car and truck operations. This, along with resurgent profits flow not expected to peak until 1996, will provide the financial backing needed to fund the next generation of cars and trucks.

"Volvo will be an extremely cash-rich company," says Colin Whitbread, motor industry analyst with Swiss Bank Corporation in London. "It will probably be the strongest in balance-sheet terms in the industry in Europe. The question is: what will they do with the money to earn a better return than they get at present from their other assets?"

Volvo says it will not complete until later this year a thorough reappraisal launched after it broke off the Renault marriage of how to develop its present narrow range of three basic car models, the medium-sized 400 series, the new 850 and the largest 900 series.

The underlying aim is to break out of Volvo's traditional limited market appeal based on safe, reliable but rather dull cars.

A significant start on producing more dynamic models, giving greater "driving pleasure", was made with the launch of the 850, the sportiest full-sized saloon ever made by Volvo. A new medium-sized car, code-named the V40, is due out within 18 months.

But Volvo has some way to go to establish a sportier style while it is facing ever stiffer competition in its traditional stronghold of safety-first, spacious estate cars from a range of rivals. Volvo has also missed out on other opportunities – such as the big growth in the US and Europe of "people carrier" minivans (like the Renault Espace) and four-wheel-drive Land Rover-type vehicles. It also missed the surge in popularity in Europe of diesel-engined cars.

**Volvo is facing ever stiffer competition in its traditional stronghold of safety-first, spacious estate cars**

The company faces a dilemma in addressing these issues. It does not have ambitions to go beyond being a niche car producer. With a total production capacity likely to hit 425,000 cars a year next year, against expected 1994 sales of 350,000, it is approaching capacity limits, but does not intend big production increases that could lead to dangerous overcapacity it experienced in the early 1990s.

But such relatively small output figures mean Volvo faces the problem of how to produce strong profit margins while carrying high units costs – especially if it wants to launch wholly new models such as a Volvo people carrier.

This raises the question of whether Volvo will look for a new partner to succeed Renault. Such a move would match conventional motor-industry wisdom that producers must share high development costs to get full returns. But Volvo does not seem in the mood for another major alliance – even if a partner were readily available.

It does already have a venture in the Netherlands with Mitsubishi of Japan and the Dutch government, which produces the 400 series. This venture will make the V40. But beyond that, the signals from Volvo are that it will seek co-operation agreements with other manufactures on parts of cars, such as engines, gear boxes and other systems, rather than a new strategic alliance.

Meanwhile at Saab, the priority is to consolidate the return to profit, rather than to take any bold new leaps. Saab this year expects to sell 94,000 cars, well up from last year's 73,600 and comfortably over the new break-even level of 83,000.

The next step after the all-new 900 model is to revamp the bigger 9000, a development which is now under way. But Saab has yet to say whether it will go ahead with a third model line GM once talked of adding to the range.

**Stuart Marshall** assesses the new models on offer

# Design a high priority in the luxury market

Will a radical change in construction materials and techniques put Audi up among the front runners in the luxury car stakes in 1995? Its new A8 quattro saloon's light alloy space frame and panels save weight and fuel; Tiptronic transmission gives drivers the benefits of automatic or manual shifting; and four-wheel drive allows them to make full use of its 4.0-litre, multi-valve V8s 300 horsepower on wet or dry surfaces.

But by itself, this technology may not be enough to ensure sales success. When it comes to styling and mechanical layout, status conscious luxury car drivers are remarkably conservative. Thus the new BMW 7-Series has classic rear-wheel drive and lines remarkably like those of its predecessor, while the new Jaguar XJ saloon, roomier inside yet slimmer looking, has even reverted to the twin round headlamps of an earlier model.

In business motoring's middle reaches, General Motors has stayed faithful to rear-wheel drive for its Opel (Vauxhall in the UK) Omega, as has Ford with its heavily revamped Scorpio.

Drivers of these classes of car know what they want - smoothness and silence, ample power and air conditioning, automatic transmission and a built-in telephone, airbags and anti-lock brakes.

Next year the list will extend to satellite navigation, to be offered in Mercedes-Benz's most prestigious S-Class, BMW's 7-Series and, probably the successor to Japan's trend-setting luxury car, the Lexus LS400.

**In the medium/large class most of the past year's newcomers have conformed to a pattern**

In the medium/large class most of the past year's newcomers - the Renault Laguna is typical - have conformed to a pattern; front-wheel drive (occasionally with an all-wheel drive option), space-saving transversely-mounted engines, standard airbags and anti-lock brakes and the easy availability of air-conditioning and automatic transmission.

Choice of a diesel as an alternative to a petrol engine has become essential. Only two European business car providers of any consequence - Saab and Jaguar - do not have diesels in their product ranges. Both are likely to add diesels, with engines bought-in rather than developed in-house, within the next two or three years.

Great strides are being made in car diesel technology. For now, BMW's in-line turbo-charged and intercooled six-cylinder units have no peers for urgent and near silent power delivery.

Mercedes-Benz, with the world's first four valves-per-cylinder passenger car diesels, and PSA Group's latest 2.5-litre diesels with twin balancer shafts, have brought diesel smoothness close to petrol engine standards while benefiting from higher torque at low revolutions and cleaner exhaust emissions.

BMW's just introduced four-cylinder diesel is raising the stakes in the market for less expensive, fuel efficient business cars. For fuel economy combined with acceptable refinement, VW-Audi's direct-injection diesels, as fitted in Audi 80 and 100 and VW Golf and Passat models, lead the pack. Rover's direct-injection engined 600 diesel saloon will soon rival their standards.

The new Audi A4, soon entering the European market, will replace the Audi 80 Saloon

Sales of on-off road 4x4s have maintained their impetus. The vehicles have become civilised, if rather thirsty, on-road car substitutes and rarely venture on to the rough terrain which they were designed to tackle.

Land Rover's latest Range Rover with height-adjustable air suspension is put forward as an alternative to conventional luxury cars in the BMW, Jaguar and Mercedes-Benz class.

Although its two beam axles cannot reasonably be expected to equal the ride comfort of a sophisticated all-independent system, it is a most urbane performer on the road and remains capable off it.

One of the attractions of on-off road vehicles such as Range Rover is their so-called command driving position. It gives users a feeling of superiority and allows them to see over the tops of normal cars ahead.

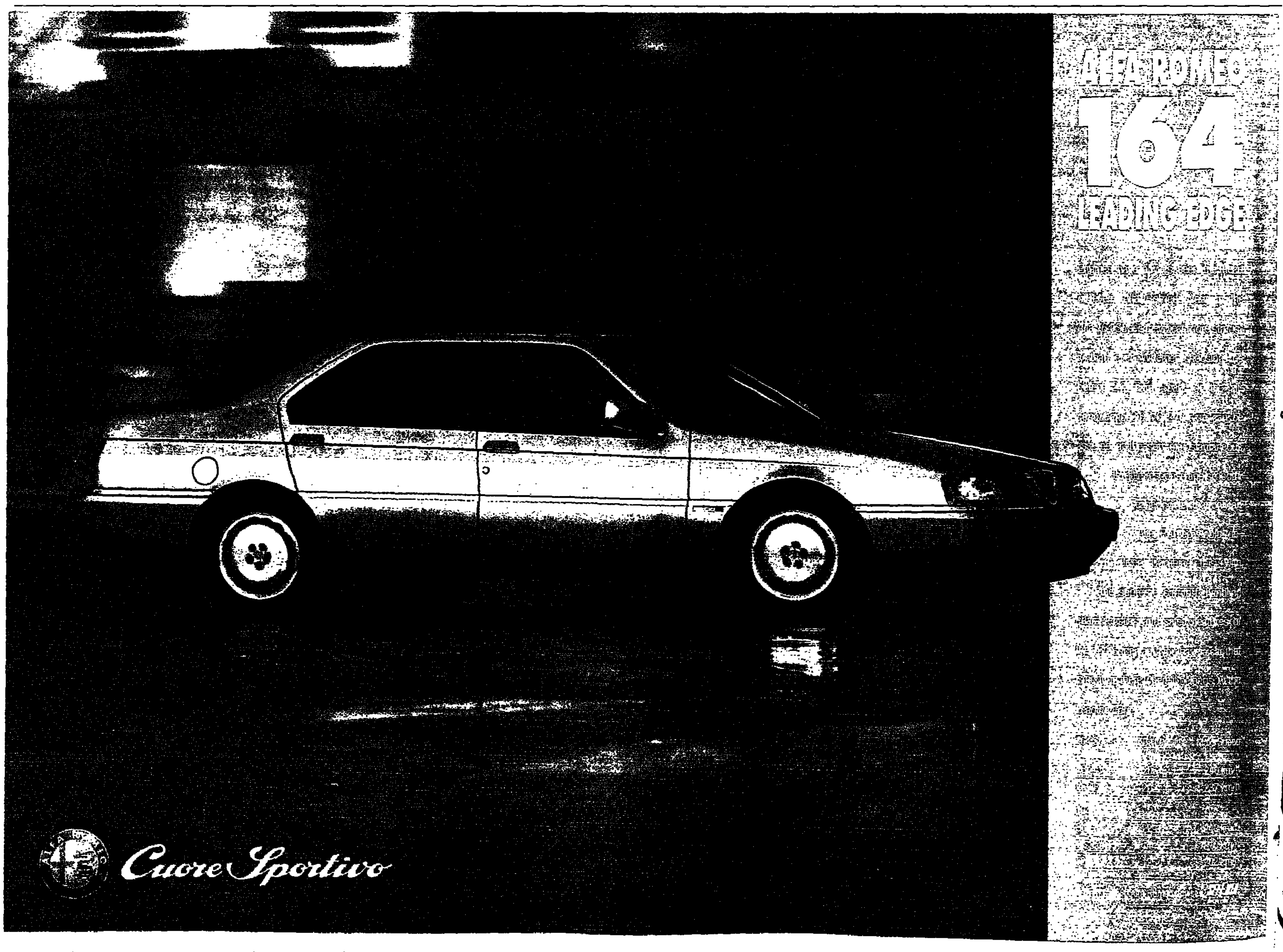
Similar benefits are offered by multi-purpose vehicles (MPVs) which lack the high-slung 4x4s largely unused off-road capability.

Their market penetration is forecast to grow substantially in Europe as new models such as the joint Portugese-produced Ford-VW project come on stream. Whether this will be at the expense of on-off road 4x4s or conventional estate cars remains to be seen.

In the past eight years, sales of MPVs such as the Renault Espace (still market leader in Europe) have risen by an average 80 per cent per annum.

By the end of the century it is expected that 700,000 MPVs will be sold in Europe each year.

This forecast makes the introduction of a range of MPVs built by PSA but which will be sold badged as Citroëns, Peugeots, Fiats and Lancias among the most significant motoring events of 1994.



Technology: European buyers are starting to demand more extras, writes **Jeff Daniels**

# Early sign of a change in attitudes

Europe is a motoring paradox for the systems engineer. European motorists, as any engineer (and especially any Japanese engineer) will tell you, drive faster, go round corners quicker and generally expect more in the way of performance from their cars than anyone else.

Yet for the most part they have until now remained resolutely indifferent to developments which make life at the wheel safer, more comfortable, and more efficient.

The antithesis of the European is to be seen in the clogged streets of Tokyo. Here the driver of a typical medium-sized car will edge his way along with the aid of automatic transmission. The temperature and the humidity may both be in the nineties but the Japanese driver will have air conditioning to take care of that.

Every so often, he will glance at a display which tells him if he is still heading in the right direction. And if the boredom of slow progress becomes too much, he may switch the display from navigation mode and sing his way along to the tones of his own in-car karaoke as the words of the song appear on the same screen.

It may be that European drivers will forever place in-car karaoke lower on their list of priorities – but don't laugh: the addition of such frivolities gave a huge boost to the originally slow-starting sales of in-car navigation systems in Japan. Many motor industry suppliers, and in particular the larger component groups, are writing their plans around the assumption that European drivers will begin to embrace technically advanced systems for their own sake.

An early sign of this changing attitude was provided by the air-bag. Product planners wise in the ways of Europeans had long predicted that the air-bag would remain a largely American phenomenon, its extra cost stoutly resisted on this side of the Atlantic by drivers who would continue to rely on the efficiency of their tried, trusted and sensible

**Through 1993, there was what amounted to a panic among car makers to secure air-bag suppliers**

safety belts. The planners were wrong. The majority of cars on sale in Europe are now equipped at least with a driver-side air-bag, and there is no question that the trend has been consumer driven. Through 1993, there was what amounted to a panic among car manufacturers to engineer installations and secure component supplies to avoid being left behind in the rush.

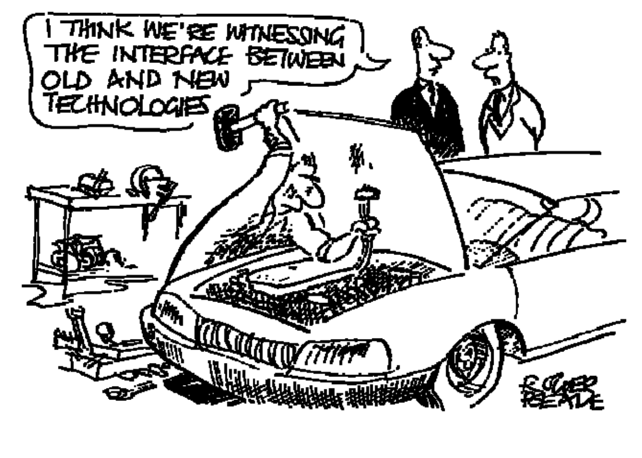
The question now is which item of equipment will be the next to rise to the top of the consumers' must-have list.

Some of the smart money has gone to back air conditioning systems. In perhaps 10 years, air conditioning has moved in European eyes from being an indulgence confined to the most luxurious of cars, to a remarkably efficient aid to comfort which is now beginning to appear in the upper reaches of mid-range family cars.

Significantly, as used to be the case with central locking (which is now fitted to well over half of all the cars sold in Europe), those who have tried it tend to insist that they could never again do without it.

Encouraged by such sentiments, the leading system suppliers such as Valeo are gearing up for a rapid rise in demand, with the possibility of 50 per cent of new European cars being air conditioned by the 1997 model year.

The debate meanwhile rages




as to how eagerly European car buyers will embrace the visible aspects of electronics – not the karaoke, but certainly the navigation display, for example. The electronics are already there in the car, of course: no modern low-emission engine could function without its electronic management system, no anti-lock braking and traction control system could operate with high efficiency without the speed and precision of electronics.

Most automatic transmissions have abandoned hydro-mechanical for electronic control; the new generation of "active" chassis control systems, from adaptive damping to Citroën's remarkable new Activa roll-limitation system, depend on electronic sensing and control. The real arguments in this area now centre around two questions: visibility and standardisation.

Visibility in this context means whether or not the presence of extensive electronic systems should be apparent to the driver. There is a powerful school of European engineering philosophy which would prefer such technology to be "transparent", functioning entirely behind the scenes, so that the actual driving task remains as simple and straightforward as possible: more simple and straightforward, indeed, than it has ever been before.

Others, encouraged in some degree by marketing departments who feel they have a better chance of selling more expensive cars if the technology behind the expense is immediately apparent, want to see the power of electronics brought to the "driver interface". In other words, communication between the driver and the vehicle will become electronic rather than manual.

One reason for the current surge of interest in navigation systems is that their technology appears to fall between the two extremes. Which works best, a display screen or audible instructions? How does the driver best tell the system where he wants to go – by keying into a computer-type keyboard, or by issuing verbal instructions into a microphone?

As yet, there are no clear answers to such questions.

It is the need for standardisation, however, which is most occupying the automotive electronics industry. Even within a single car, the need clearly exists. We have already reached the stage where an engineer developing a new system, and needing a specific piece of information – how fast the car is going, how fast the engine is turning – will usually find that the information is already being supplied by a sensor to an existing system.

It is far cheaper and easier to tap into that source – as long as the information is being supplied in a form which the

**Some of the largest and most 'technical' cars, such as Mercedes' S-class, already have a 'databus'**

new system can accept.

That used not to be a problem, but the mushroom growth in the number of sensors, systems, and types of information is beginning to make it one. Some of the largest and most "technical" cars, such as Mercedes' S-class, already have a "databus" and a formal protocol to speed the exchange of information between systems (as well as saving the weight of a hefty wiring loom, and gaining reliability through the elimination of countless electrical connections). But which information standard, which communications protocol will become the worldwide standard?

There is a need for such a standard, because we are rapidly approaching the point at which cars will be able to communicate with a roadside infrastructure of navigation and information "beacons", and with each other.

This is the essential technology behind programmes such as the pan-European Prometheus, now reaching fruition, and which aims to increase safety and efficiency, and reduce emissions, by minimising traffic conflicts and allowing vehicles to spend more of their time travelling at a steady speed. Such universal systems will only be able to operate properly if every vehicle is speaking the same "language".

The commercial rewards of developing from the outset equipment which conforms to the eventually adopted standard will be immense: manufacturers in Europe, Japan and the US are well aware of this, with the result that a techno-political battle royal is likely to be joined in the final years of the century.

**John Griffiths** looks at prospects for the electric car

# Short on speed and range

After 100 years of being "just around the corner", the electric car is coming into sight. But it is low on power, short of range, expensive to make and is being pushed and pulled along by environmental legislators and grumbling carmakers.

Were it not for Californian state clean-air legislation requiring 2 per cent of each manufacturer's sales to be of zero-emission vehicles (Zevs) from 1998, it is unlikely that the battery-powered car – currently seen as the only way of achieving zero emissions in urban areas – would be a candidate for volume production this century, certainly in North America.

Americans pay little for petrol and the economic incentive towards electric cars is zero. Even in Europe and Japan, where growing urban air quality problems and much higher fuel prices create a more viable climate for "EVs" (electric vehicles), progress is slow and disappointing for their proponents.

Despite intensive research and expenditure of many hundreds of millions of dollars, the search for a "superbattery" capable of giving an "EV" anything remotely like the speed and range of a petrol car has so far failed. There are a few promising alternatives to lead-acid types, but most have disadvantages.

Thus when the first flocks of battery cars do roll out of Californian showrooms in less than four years, the certainty is that their high cost will be subsidised in part by the conventional cars their manufacturers sell in much larger numbers. And the drivers who have bought them will have made knowing sacrifices of finance and flexibility as the price of cleaner Los Angeles air – for range restrictions rule out EVs as "only" cars for far-ranging Americans.

But roll out the "Zevs" will,

**The threatened penalty of non-compliance is exclusion from the markets of California and several other states**

except in the now-highly unlikely event of the Californian Air Resources Board (Carb) and other state legislators being won over, at the 11th hour, by the motor industry's fervent arguments that a truly viable Zev is not technically achievable by 1998.

Such arguments have been falling on deaf Carb ears for the past several years, and other states such as Massachusetts have been lining up to impose similar legislation.

And the "2 per cent" rule is just the start; the legislation requires 10 per cent of sales, or at least 100,000 in California's 1m-plus new car market, to be of Zevs by early next century.

Manufacturers have had no choice but to start developing such cars, for the threatened penalty of non-compliance is exclusion from California's and some other states' markets.

Certainly the motor industry has little hope of a reprieve through the still-rumbling debate about whether battery cars are really as clean as they are made out to be.

As a number of reports in both the US and Europe have pointed out, the electric power stored in an EV's battery has to be generated somehow. And whether it is produced from coal, oil, natural gas, hydro or nuclear energy will have a big effect on the overall environmental impact of a battery-powered car population.

It is typical of the unfulfilled promise of even the biggest car makers' electric vehicle plans that as far back as the early 1980s General Motors was promising 100,000-plus output of small electric cars before the end of that decade. They never materialised, defeated largely by inadequate battery technology. Nor did promised vehicles from Ford.

Now GM has the Impact, perhaps the most-trumpeted electric car programme of all, and trials of which are just getting under way in Los Angeles.

In 1991, GM's electric vehicle programme directors implied, if not specifically stated, that cars based on the 100mph-plus, purpose-built and aluminium-bodied Impact would be rolling out of a former Buick plant at Lansing, Michigan, well before the 1998 deadline.

Even though a fleet of 30 has now been produced under a $32m "PrEView" programme which will see 1,000 drivers evaluate cars and charging apparatus over the next two years, the Impact project appears to have lost GM's earlier go-it-alone enthusiasm. The world's biggest vehicle maker is now collaborating with both Ford and Chrysler in pursuit of the viable EV.

One ray of hope on the battery front is a joint venture GM and several other car makers, including Hyundai of Korea, have signed with the Ovonic battery company of the US, to produce batteries using nickel-hydride.

In the case of the Impact, says GM, it is believed the Ovonic battery could double the Impact's 70-mile city driving range using lead-acid batteries.

Even this project falls within a wider US collaborative framework. GM, Ford, Chrysler, electric utilities and government agencies, formed several years ago into the Advanced Battery Consortium, have awarded research and development contracts to five other battery makers pursuing alternative technologies.

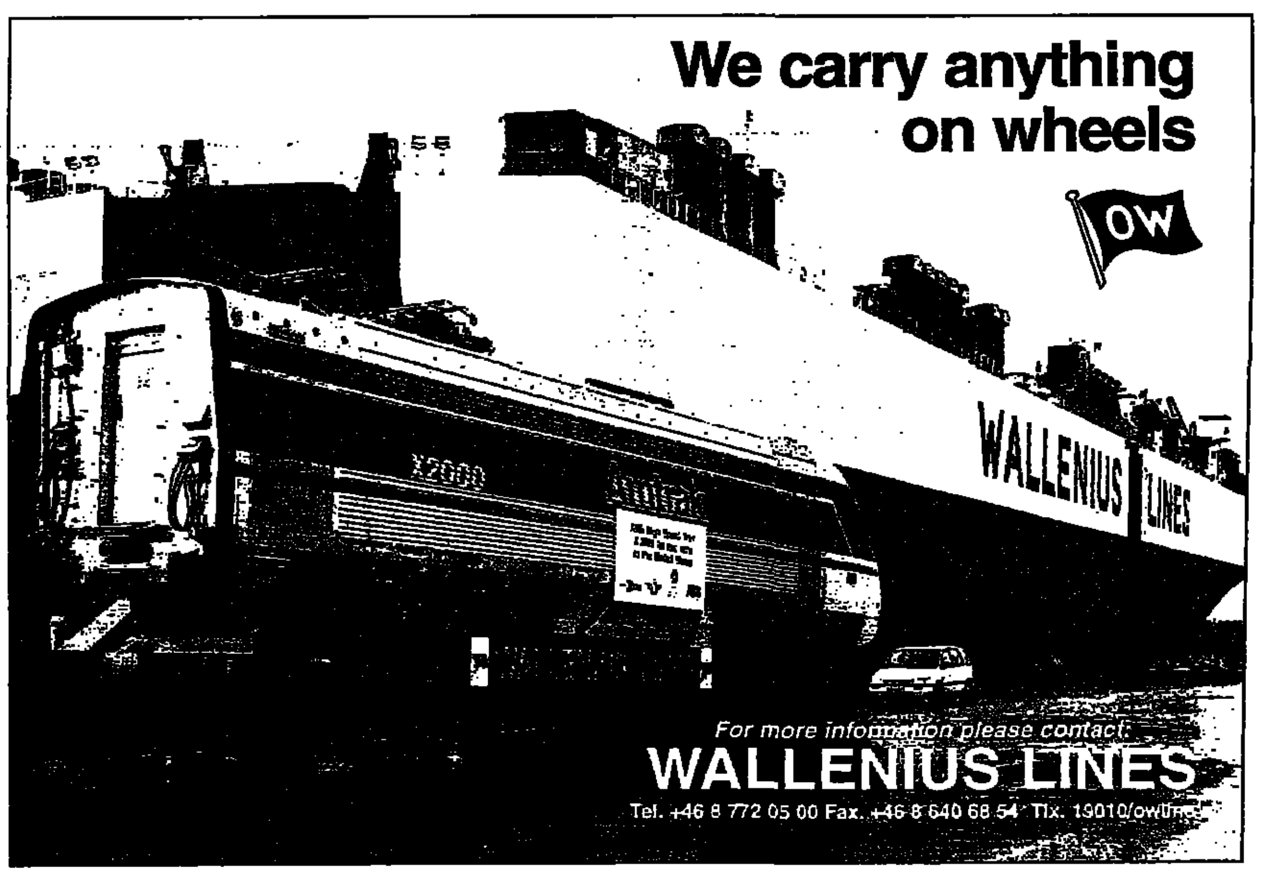
The search for viable battery cars for California has already had its casualties. At least one City of Los Angeles-backed electric car project has run out of funds.

Meanwhile, Ford and several European companies are among those arguing that ultra-low (but not zero) emissions "hybrid" cars should be considered as an effective compromoise. They would use a very small petrol or diesel engine running at constant speed to keep batteries charged when running on open highways (thus overcoming the range problem) but switching to battery-only operation in urban areas.

That debate, too, rumbles on both in North America and in Europe, where there is considerable interest in the activities of Peugeot, a lonely voice predicting that Europe could have a 200,000-plus market for electric cars by the end of the decade.

Peugeot says it plans soon to produce electric cars at an initial rate of 5,000 a year. And more than 20 French towns are being equipped with a basic infrastructure to recharge them. The rest of Europe, far less reliant on nuclear energy, appears content to stand and watch.

Just how much progress is really being made should become more evident in California in December. It is then that an important electric vehicle symposium will take place with Ford, Chrysler, BMW, Mercedes and all others with a stake in the wealthy Californian market putting their EV wares on display. The symposium will take place in Anaheim... more specifically, at Disneyland...



# German producers go west

Continued from Page 8

Both companies expect that their final investment will be several hundred million dollars more.

BMW's investment in Greer, a tiny town between the two South Carolina county seats of Greenville and Spartanburg, has already brought 12 suppliers into the area. BMW expects eventually to have a total of about 70 suppliers to its South Carolina plant, some 24 of which are expected to locate in the state.

Robert Hitt, spokesman for BMW in South Carolina, says that for the new roadster, "local content will be about 50 per cent".

Ten of the 12 BMW suppliers have construction under way in South Carolina or are already producing, including:

- Lear Seating, a top US seat systems manufacturer;
- Lemforder, a subsidiary of the German firm Lemforder Metallwaren AG, for front axles;
- Zeuna Staerker, a Germany subsidiary for mufflers;
- Plastic Omnium, a French subsidiary, for bumpers and fuel tanks;
- Electro Wire, a US firm, for battery cables and some wire harnesses;
- Magna International of Canada for side panels and floor pans, and
- Alfmeier, a German subsidiary, for fuel valves.

Some suppliers were already nearby in South Carolina, including Michelin, the French tire maker, and Robert Bosch, the German automotive parts company. A local firm, Spartanburg Steel, will supply body parts. And Milliken & Co, the US textile giant that is based in Spartanburg, will supply interior and boot fabric.

At least one supplier so far will supply the US plants of both BMW and Mercedes. Packard Electric, a leading US manufacturer of wire harnesses, will build service centers in South Carolina and Alabama to accommodate the two German firms. The service centers will be for distribution of harnesses assembled in Mexico from US and European components. But they will also be equipped and staffed to alter or re-engineer the parts if needed.

Another BMW supplier, Lemforder, will supply parts to Mercedes through ZF Friedrichshafen AG, which will be supplying Mercedes front and rear axles from a Tuscaloosa plant.

BMW has also found that what is good enough for its South Carolina plant is good enough for its German factories. Lear Seating initially won the contract to supply BMW's plant in South Carolina and will now supply its operations at home.

Mercedes will be taking advantage of the North American Free Trade Agreement for supplies from Mexico and Canada. Lighting systems and air induction sytems will be made by two German subsidiaries in Mexico, EOSA in Mexico City and Filtros Mann in Naucalpan.

The Budd Company of Canada will supply frames and a US subsidiary of the Kautex Corporation will supply fuel systems.

Because it is using innovative modular systems, Mercedes expects eventually to have only 40-50 suppliers. "On average," said Lee Dennis, Mercedes' purchasing manager in Alabama, "automotive OEMs have 300-400 separate parts suppliers." While there may be 300-400 parts, Mercedes is arranging its supplier relationships so that it depends only on its first tier of key modular suppliers, who in turn assembled components.

The goal for Mercedes local content, said Mr Dennis, will be 65 to 70 per cent of the vehicle. He expects to have 90 per cent of Mercedes suppliers selected by the end of the year.

As production begins to roll off the lines in South Carolina and Alabama, the two German companies hope to prove not only that they can build superior quality cars in the US, but also that they can do so far more cheaply than at home.

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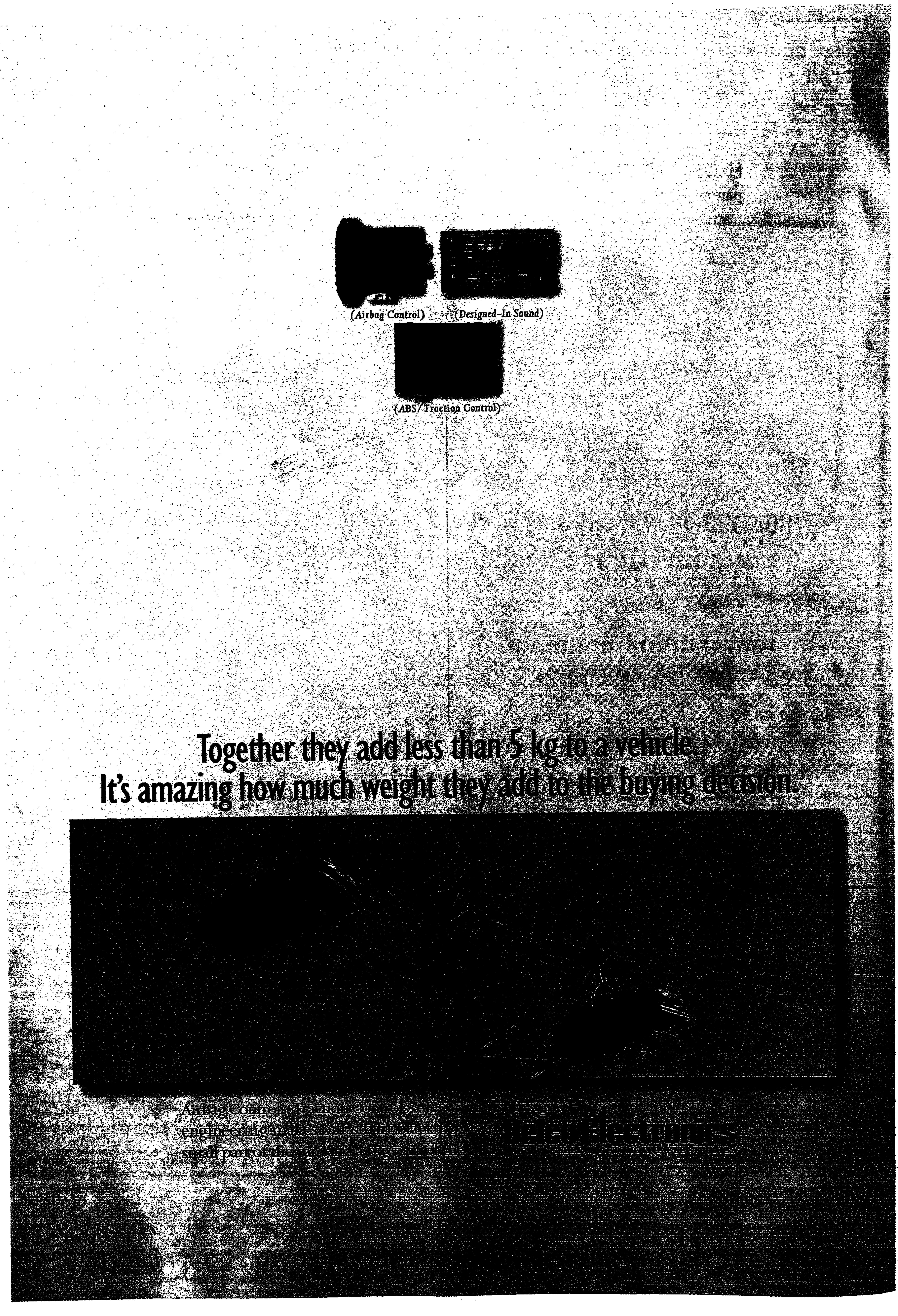
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# NEW BROADCAST & COMMUNICATION MEDIA

Tuesday October 4 1994

**Raymond Snoddy** finds that the convergence between entertainment, computing and telecommunications is at last beginning to happen

## The audiences are spoilt for choice

Last month, after years of planning DirecTV finally completed a television satellite system with the power to broadcast 150 channels of entertainment over the entire American continent.

The broadcaster, part of the Hughes Aircraft Company, launched the first 60 channels in June and then moved on September 19 to 150 channels after the successful launch of a second RCA satellite.

Suddenly for those in rural areas without a cable television service, or even without television at all, the choice ranges from the Arts and Entertainment Network, Bloomberg Direct and Cartoon Network to the Turner Classic Movies, The Weather Channel and USA Network, with more on the way.

There are seven themed movie channels and 28 digital audio channels, not to mention the pay-per-view service offering up to 50 channels of movies, sports and special events, with Hollywood films starting as often as every 30 minutes.

DirecTV declines to say how many subscribers the system has so far, but it claims that the $700 decoders, complete with 18-inch dishes, "are flying off the shelves".

The system indicates how the revolution in communications and entertainment is gathering pace throughout the developed and even the not-so-developed world.

Mr Rupert Murdoch's Hong Kong-based Star TV will next year launch a satellite system also with a capacity of up to 150 channels, using digital compression technology, developed in conjunction with NTL, the privatised engineering division of the IBA, that can squeeze 10 channels of television into the space now occupied by one. The initial plan is to run up to 40 channels, many in Asian languages.

SES, the Luxembourg company that operates the Astra satellites, plans to launch its fourth 16-channel satellite at the end of this month, followed by two digital satellites, the first next year and the second in 1996.

If all goes well, Europe too will have its 150-channel system, and to the now established range of thematic channels, catering for sports enthusiasts and children, will be added pay-per-view movies in some form or another.

Almost every day, new channels are being launched to boost the multi-channel revolution. Over the past 10 days FilmNet, the Belgian-based pay television service, has started up subscription channels in Greece and Poland and in the UK five new satellite services have come on stream, including a British version of the American music channel VH-1, a mature version of MTV.

MTV, which claims to be the largest television network in the world, reaching 250m homes in 63 countries, is at work on two new Asian channels. One 24-hour channel will be in Mandarin and aimed at China, Taiwan and Singapore. The other will be an English language service with some Hindi programming for India and south-east Asia.

However, the extra choice goes far beyond entertainment as both news and business news channels expand.

The BBC, encouraged by the government to play a commercial role abroad in addition to its public service responsibilities at home, is increasingly taking its World Television News service around the globe in competition with Mr Ted Turner's Cable News Network.

Early next year the corporation, in a partnership with Pearson, the media group that owns the Financial Times, plans to launch two satellite channels in Europe – one devoted to news and the other to entertainment. In the summer the BBC also began, under contract, a 24-hour television news service in Arabic for the Middle East.

The choice of business news is expanding dramatically – apart from regular business coverage from CNN.

The CNBC business channel is already successful in the US. Now NBC SuperChannel is about to give it much greater business focus with the launch next year of the European Money Wheel segment of programming in the morning and the relay of CNBC in the afternoons. Early next year Dow Jones, publishers of the Wall Street Journal, and Flextech will launch European News. They are backing a similar service in Asia, and both Dow Jones in the US and Reuters, the international news and information group, are providing a subscription service direct to the computer screens of market professionals.

When it makes little difference whether business news is obtained from a computer screen or a TV screen, it is clear that the importance of the new media goes far beyond extra channels of entertainment. There are frequent signs that the long-predicted convergence between entertainment, computing and telecommunications is at last happening, even though the electronic superhighway probably excites politicians more than consumers at the moment.

Cable, satellite and video cassettes will have a growing number of rivals to communicate words, pictures and ideas.

The Internet has come from almost nowhere to become a significant medium of communication. According to some estimates, by the end of last year more than 7,000 CD-Rom titles were available. By the end of this year over 10m CD-Rom drives are expected to have been installed.

New uses are being developed for old networks. British Telecom has already completed trials for digital video-on-demand services, using ordinary telephone lines. A full commercial trial, taking in about 2,500 homes, is due to get under way early next year.

In the UK the cable industry argues that, while others only talk, it is at work laying the superhighway, encouraged by the fact that British cable companies can offer business and residential telecommunications as well as extra television channels.

Already more than £1.5bn (out of a planned £10bn) has been invested in cable networks with the three largest players, TeleWest, a joint venture between US West and TCI; Nynex, the New York telephone company; and Bell Cablemedia owning franchises covering 7m homes.

The penetration rates for cable television – the ratio between those who can subscribe and those who actually do – has stayed stubbornly low at about 21.5 per cent. But the speed at which new networks are being built means that even if the average penetration rate does not rise, the number of cable subscribers in the UK is likely to exceed the 1m mark by the turn of the year.

Apart from developing telecommunications services, the cable companies are encouraging the growth of more cable exclusive programming to try to boost penetration rates.

Channel One, a 24 hours a day television news channel to be launched by Associated Newspapers at the end of next month, will be available on the London Interconnect that links all the cable franchises in London. It should then spread to similar groupings of franchises in the Midlands and in the north of England.

Last month the Mirror Group, publisher of the Daily Mirror, announced that it too would launch a cable channel, Live TV, based on entertainment and live events.

While cable is growing in the UK, British Sky Broadcasting is also expanding and plans to launch its first video-on-demand services next year.

In August BSkyB announced operating profits of £170m for the year to June and said then that its total number of paying subscribers was 3.45m, of which satellite dishes accounted for 74 per cent.

There have been disputes about the size of the BSkyB audience but the latest figures from GfK, the marketing group, which excludes cable from its figures, suggest there were 2.716m satellite dishes in the UK at the end of August.

Yet, despite the growing excitement about superhighways and new television channels, what is remarkable is how resilient many of the traditional broadcasters are.

In the US, for instance, both Time Warner and Paramount, now owned by Viacom, are interested in starting their own networks. And NBC and CBS are considered attractive takeover targets again, partly because the rules preventing the networks owning both their own shows and the syndication rights have been lifted.

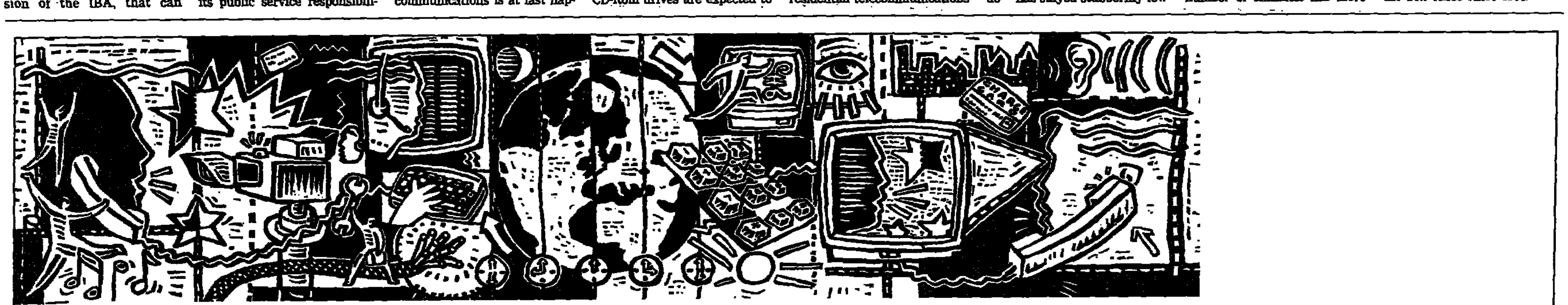
In the UK, even though the number of channels has more than doubled, the new channels rarely get more than a third of the viewing in cable and satellite homes. The latest figures for the week ending September 18 show a 31.7 per cent share for the new channels, with the seven Sky channels taking 17.4 per cent.

Indeed, as more and more entertainment choices became available, European cinema enjoyed what Screen Digest recently called "a boom of almost unprecedented proportions" in 1993 – its best year at the box office since 1984.

### IN THIS SURVEY



*Editorial production*
*Gabriel Bowman*

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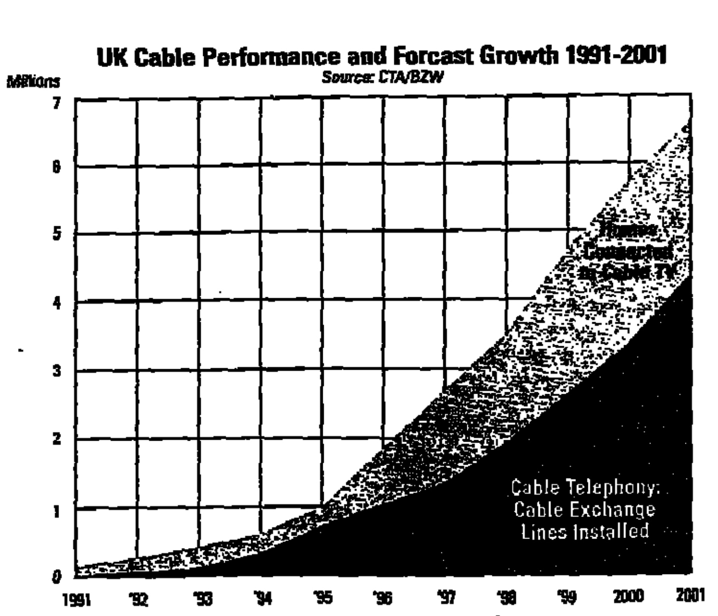


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Andrew Adonis on the challenge that the operators face

# Telephony broadens cable's appeal

The UK's cable operators are generally called "cable TV companies". This is a misnomer, for telephony is almost as important to them as television, and they market the two services hand-in-hand. Indeed, of the three largest cable operators in the UK, one – Nynex – is a regional Bell phone company in the US, while the other two – Telewest and Bell Cablemedia – are joint ventures between telecommunications and cable operators.

The confusion is explained partly by the fact that telephony came later than television. Until 1991, telephony in the UK was a duopoly between British Telecommunications and Mercury, a rival to BT set up in 1982.

One of the principal aims behind the abolition of the duopoly was the promotion of competition in local phone services by encouraging cable operators to lay telephone wires down the same ducts as their TV cables. Mercury's network is for long-distance traffic, and relied on BT for local access to all but a small number of very large users. To further encourage the cable companies, the government banned BT from using its existing network to offer broadcast entertainment services to the residential market.

Those two steps – the BT ban and the abolition of the duopoly – made cable investment a far more attractive commercial proposition than previously. But most of the cable operators were surprised at the take-off of cable telephony.

At the beginning of September, the cable operators had sold 534,000 telephone lines, about 54,000 of them business lines and the rest residential. That compared with 745,000 cable TV subscribers.

Some cable operators now boast more telephone than TV subscribers. Nynex, the second largest operator, claims that 25 per cent of the homes it has passed in its Portsmouth franchise now take cable telephone, against 22 per cent taking cable TV. A year ago, 58 per cent of new customers were taking both products; now it is up to 70 per cent.

The social make-up of cable customers is changing too. When cable was clearly TV-led, it had strongest appeal in areas of low-income housing where the extra TV channels were particularly popular. Telephony is broadening cable's appeal. "At the prosperous end of the demographic continuum we are now selling well above average," says Mr Peter Lynch, Nynex's director of residential marketing. Sales are below average among older residents, "but it is a more a concern about change, not a clear socio-economic divide," he believes.

BT is clearly worried by the success of cable companies in luring away some of its more affluent customers. Mr Michael Hepher, BT's managing director, brands cable the most serious of BT's competitors for the medium and long term. "Whereas with Mercury we lose the long-distance revenue but keep the line connection, with the cable companies we lose that too – and with it the opportunity to sell and market all our services."

BT has set up "cable defence" teams to target urban areas where cable companies are building their networks. It has also launched a high-profile campaign to secure a lifting of the entertainment ban, claiming that it could generate local cable monopolies unless lifted soon. BT executives are also concerned that BT cannot vary its prices regionally, fearing that as price competition intensifies BT will be disabled by the requirement to charge the same for a local call in Portsmouth as in the Scottish Highlands.

**Cable had a strong appeal in areas of low income housing. Now BT is worried by its success in luring away affluent customers**

However, the "cable threat" needs to be put in perspective. BT has 27m lines and 85 per cent of the UK's telecoms market. It is currently adding new lines at a faster rate than the cable companies: its net monthly growth is running at about 60,000 lines against 40,000 for the cable companies. BT has a mobile phone offshoot, Cellnet, which alone has 1.2m subscribers – more than twice as many as all the cable phone users put together.

Furthermore, the entertainment ban is unlikely to endure indefinitely. The House of Commons trade and industry select committee recently urged the government to set a firm date of 2002 for lifting the ban. Even the Cable Television Association accepts that the cable industry has little to gain from continued uncertainty.

"BT is in a very strong position, which is not seriously jeopardised by the cable operators," says Mr Laurence Heyworth, telecoms analyst with Robert Fleming, the brokers. BT trades heavily on its customer service, which is generally accepted to be good. By contrast, some cable operators have had serious teething troubles with their billing and fault-repair systems.

Even fiercer price competition may work to BT's advantage: as the price differential between BT and its rivals falls, so does the incentive for customers to switch from one supplier to another.

Already, price differentials are often small, especially for long-distance calls. Straight price comparisons are problematic, given the multiplicity of cable operators. But generally speaking, while cable line rental charges are lower than for BT, and local charges cheaper, the price of long-distance calls is not much different between cable and Mercury using a BT connection.

In some franchises long-distance calls are actually cheaper if made by Mercury via a BT line than by cable. Tariff sheets resemble railway timetables, so only the most dedicated of residential customers will be inclined or able to work out such differences. For most customers, headline savings are all. For now, cable company claims that they are around 10 to 15 per cent cheaper for a typical BT phone bill appear to be holding sway, but they may not continue to do so.

The challenge for the cable companies is to become more than a "cheap BT" as telecoms suppliers. On the residential side, pay-per-view and video-on-demand services across telecoms wires are being tested, with operators promising commercial services in the near future. But dates are vague, and precise prices for such services have yet to be revealed.

At the outset cable operators concentrated on the residential market, where joint marketing of TV and telephony appeared to have most to offer. They are now taking the business sector seriously. London's operators have come together in a "London Interconnect" consortium, and offer city-wide datacoms services. Videotron, which holds a telephony franchise in Westminster and City, has launched a desk-top television/information service, upgrading PCs with a special card to give users access to TV and information databases on their screens.

But the corporate sector is the fiercest part of the telecoms market, with a host of new operators – most of them US-owned – building networks and offering services. At least in the residential sector the cable companies have only BT to fight.

Interview with Philippe Galteau, General Cable's managing director

# A man of heretical views

Mr Philippe Galteau, managing director of General Cable, is an unusual executive in the British cable industry. He is, of course, a Frenchman working for a subsidiary of Compagnie General des Eaux, the large French services group, in an industry still dominated by North American money.

But more important than the fact that he is not an American are what he describes as his heretical views on the future of the industry. In contrast to cable television or even residential telephony, he places enormous emphasis on developing business telephone services because of the high revenues involved.

Mr Galteau regards video-on-demand, a concept that is exciting many cable and satellite operators, as little more than "a gadget, a dazzling thing" that is not really essential for the financial development of the industry.

He is also sceptical about another of the latest industry buzzwords – interactive television – because of the high costs involved and describes himself as "scandalised" by those putting a heavy emphasis on games or bothering to show a single football game from a number of different camera angles.

"Cable television is only one part of our activity and in the long term I would be very surprised if it amounted to more than 40 per cent of our revenues – and I think it is more likely to be one third rather than 40 per cent," he says. "I would hope that the message that we are building broadband networks rather than TV networks is going to grow," he adds.

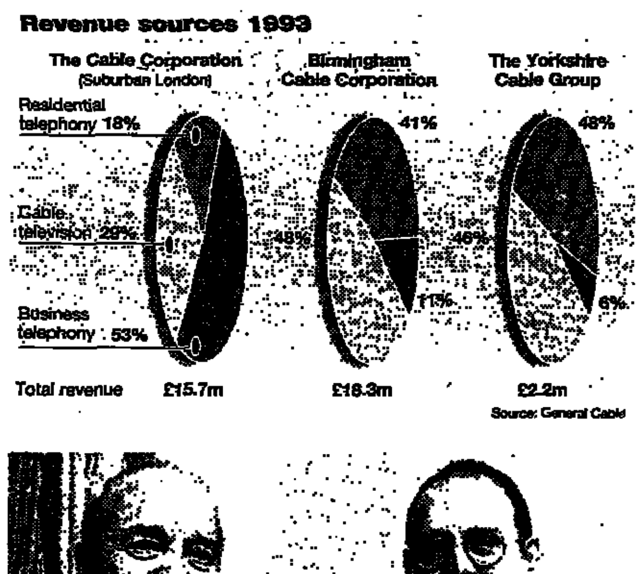
General Cable, founded in 1989, has three main stakes in the UK cable industry. It owns 83 per cent of The Cable Corporation, which runs suburban London franchises that also cover Heathrow, the Slough trading estate and Windsor, and 45 per cent of the Birmingham Cable Corporation, which is managed by another shareholder, Comcast. General Cable also has a 50-50 joint venture with Singapore Telecom in the Yorkshire Cable Group – one of the largest cable franchises covering 875,000 homes and 50,000 businesses.

But it is TCC that demonstrates Mr Galteau's philosophy of cable most clearly. Last year TCC had total revenues of £15.7m with 53 per cent coming from business telephone services, 29 per cent from television and 18 per cent from residential telephones. Since 1991 the number of business lines operated by TCC has grown from 2,639 to more than 7,500 now.

But Mr Galteau is fascinated by the ratios between what he regards as a business with three quite distinct streams of revenue. If the monthly gross margin on cable television services is 1, he argues, then the margin on a residential telephone line is 1.4 but on each business line it is anything between 5 and 7. The figures tip even further in favour of business telephony because TCC's average business customer installs seven lines.

The result is that, in terms of revenue potential an average business telephony customer could be worth anything from 40 to 50 times that of a home taking just a cable television subscription where revenue levels are also more finite than with telecommunications.

Revenue sources 1993




Philippe Galteau (left) with David Miller, fiancial director of General Cable

To get away from the generally disappointing figures for penetration of cable television – the ratio of homes subscribing to those who could subscribe – Mr Galteau has produced a new measure, "combined penetration," which applies the different weightings for residential and business telephony revenues to the figures. This means that while General Cable's ordinary television penetration is 23 per cent, a bit ahead of the current industry average of around 21 per cent, the weighted combined penetration produces a figure of 68 per cent which Mr Galteau believes gives a more accurate picture of the state of the business.

"Bankers are starting to understand," says Mr Galteau who has been making presentations to warm up the City of London for a possible flotation. That could come some time next year, but would very much depend on market conditions. The main aim would be to make General Cable a more British company.

General Cable can already get access to debt finance and it has behind it the fourth largest French company by market capitalisation, with a total turnover of £17.4bn. Both TCC and Birmingham Cable Corporation reached positive operating cash flow this year with Yorkshire, a much newer franchise only 9 per cent built, forecasting positive cash flow in 1997.

Just as General Cable believes it has been a pioneer in the emphasis given to business cable, so Birmingham Cable has been seen as a pioneer in the marketing of residential services.

For several years Birmingham was the undisputed champion of the UK cable industry and not only had the largest number of homes subscribing but also the highest penetration rate in the industry. According to the latest official statistics, Birmingham is, with 59,231 subscriptions, still the franchise with the largest number of homes connected – 30,000 ahead of its nearest rival, Portsmouth.

However, Birmingham's penetration rate has dropped to 31.4 per cent and it is now second to Swindon's 32.4 per cent. Mr Ted Campbell, until earlier this year managing director of Birmingham before moving to the Tyne Tees franchise, says the Birmingham success has been based on attention to detail. "Unlike some systems, from the start, marketing has played a large part in determining where we should build," Mr Campbell explains.

**Mr Galteau has been making presentations to the City about a possible flotation. His aim is to make General Cable a more British company**

The marketing campaign included making sure that every potential customer in an area received a video of Birmingham cable's services. Sales staff were also properly trained, paid and motivated so that staff turnover was virtually nil.

The Birmingham franchise which covers 471,000 homes and 30,000 businesses is now 40 per cent built and is due to be complete in 1997. By then it could be the most powerful franchise in the country.

As for Mr Galteau, in General Cable's group headquarters not far from the House of Commons the concept of cable remains a simple one – to achieve the maximum revenues possible from every possible source from the millions spent digging holes in the ground.

**Raymond Snoddy**

**Raymond Snoddy** looks at a new genre

# TV: businessmen start to turn on

Movies and news have been the main drivers of international cable and satellite television around the globe and the main battleground for competing media giants. A new genre of programmes may, after many difficulties, be emerging as a new candidate to join the list – business television.

Everyone, of course, wants to reach high-spending international businessmen but they tend to be an elusive lot – often on the move and light television watchers.

Now from the US and Europe to Asia, companies such as Dow Jones, publishers of the Wall Street Journal, NBC, the US network company and Reuters, the international news and information group, are targeting television aimed at the business-community as a growth area.

However, the genre breaks down into two quite specific streams of programming – the general business, financial and industrial channel aimed at satellite and cable networks, and the much more specialist services aimed precisely at the screens of dealers.

Some plan to cut costs by offering both types of service simultaneously. For example Dow Jones, in a joint venture with Flextech, the cable programmer, plans to launch a European Business News channel on the Eutelsat satellite system next February and run a service for market professionals.

Even apart from the two Dow Jones services, the City of London looks like being one of the liveliest battlegrounds for the new services to business over the next few years.

Videotron, the Canadian-owned cable company which has more than 88,000 cable television subscribers in the UK, last month announced that it would launch a comprehensive range of business television services for the City of London and Westminster areas.

The company has been awarded a licence to offer competing telecommunications services in the area because the local cable licence is held by British Telecommunications.

It is building a dedicated £38m network to tap into the heavy communications traffic in an area with 37,000 businesses. But, as well as telecommunications, Videotron will have 48 channels of television available to provide non-entertainment services to the business market, direct to computer screens on businessmen's desks.

**The City of London looks like being one of the liveliest battlegrounds for the new services to business over the next few years**

Reuters will provide a special news service to Videotron subscribers in addition to the specialist information service, and the system will also carry CNN, NBC SuperChannel, EuroNews and the Parliamentary Channel, with more programming likely to follow.

At the same time, Reuters Financial Television, launched in May and aimed at foreign exchange, debt and treasury financial markets across Europe, is continuing to expand. Apart from morning briefing, Reuters Financial Television stays off the air until there is potentially market-moving information to broadcast direct to dealers' screens.

As Mr Mark Wood, editor-in-chief of Reuters, puts it, extensive research showed financial professionals "did not want television – they want video information that is useful." Mr Wood remains sceptical about the economics of more general channels.

At the same time, NBC SuperChannel, which believes it can reach 60m homes in Europe, former Soviet states, the Middle East and north Africa through cable networks and terrestrial retransmission, is about to change its programming format. It will turn itself into a largely business news channel at least during the day. From January 3 the channel will broadcast European Money Wheel, five hours of business news and information on weekday mornings. An agreement has already been signed under which FT-TV, part of the Financial Times Group, will provide the European Money Wheel segment.

When the New York markets open – in the European afternoon – the channel will carry CNBC, the successful US business channel. There is also the possibility of going 24 hours a day with business by adding an Asian Money Wheel.

The intensity of television business news competition in Europe is likely to be matched in other regions.

In the US Dow Jones has already launched a specialist channel for market professionals, the Dow Jones Investor Network, and is now looking at the possibility of adding a more general business channel to challenge CNBC.

In Asia, where the Asia Business News channel has been broadcasting for nearly a year and is available in 12m to 16m homes, there have already been experiments on providing an additional, more specialist service.

Before too long, if all the existing channels survive, worldwide business networks may be created so that business television at least begins to aspire to the boast of Cable News Network – that it is available everywhere (apart maybe from parts of Antartica and Greenland).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How pay television is starting to expand in Europe

# A 'bouquet of channels'

Pay television continues to expand in continental Europe with the two main established players, Canal Plus, the French-based broadcaster and FilmNet of Belgium drawing up ambitious plans for international development.

Canal Plus, which has Europe's largest subscription television base – over 5.6m subscribers by the middle of this year – is hard at work preparing the way for the launch of digital services, possibly by the end of next year, looking at ways of breaking into the US cable market and also starting to think about channels that could become global.

Last month the company reported an operating profit of FFr888m for the first half of this year – an increase of 2.8 per cent on last time. FilmNet, owned by Richemont, the tobacco and luxury goods company and M-Net International, the South African pay television company, is considerably smaller than Canal Plus but has started to expand in Europe from its first bases in the Netherlands and Scandanavia.

At the beginning of this month FilmNet, which already has more than 700,000 subscribers across Europe, launched the first premium movie and sports channel in Greece. The channel, broadcasting 24 hours a day, will be available in the Athens and Thessaloniki region and has the potential to reach around 50 per cent of the Greek population.

What is the first pay television channel in Greece will be operated by Super Hellas, a local company which will bring together Greek investors and Nethold, FilmNet's parent company. On the same day, another new FilmNet channel was launched in Poland and central Europe, which means that the pay television group now broadcasts different channels in Belgium, the Netherlands, the Nordic countries, Poland, central Europe and Greece.

**Saturation point for Canal Plus in France may come at 4m to 4.4m subscribers**

FilmNet, which began broadcasting in the Netherlands in 1985, specialises in providing two channels for a single subscription – The Complete Movie Channel which transmits films 24 hours a day and FilmNet Plus, which combines films, sport, children's programmes and live entertainment. The FilmNet parent Nethold is expanding its business across Europe with the launch of MultiChoice, a company set up to offer a wide range of subscription channels for satellite, cable and conventional broadcasts.

The "bouquet" of channels offered by MultiChoice includes FilmNet, The Discovery Channel, Country Music Television Europe, The Children's Channel, The Adult Channel and QVC, the home shopping channel.

Apart from Belgium, the Netherlands and the Nordic countries MultiChoice currently operates in Hungary, the Czech Republic, Slovakia, Slovenia, Croatia and Poland. This month Mr Jonathan Shier, former deputy managing director and sales director of Thames Television, joins the MultiChoice headquarters team at Hoofddorp in the Netherlands as managing director for eastern and central Europe.

Earlier this year Richemont spent $180m acquiring a 25 per cent stake in Telepiu, the Italian pay television operator which broadcasts two encrypted pay television channels featuring films and sports events and one unencrypted channel specialising in documentaries and cultural programmes.

For Canal Plus, which is active in both television and feature film production, the challenge is to extend its dominance in terrestrial pay television services to its newer satellite channels and on to the wider choice that digital television, using compression technology, can offer.

Mr Claude Ravilly, executive vice president and chief financial officer of Canal Plus, believes there will be more competition when digital television arrives as more channels can be offered to the consumer. "We believe we have the ability to compete strongly because we know how to create programme values and we know how to sell to homes and market subscriptions. It will be difficult to compete with Canal Plus," says Mr Ravilly.

Canal Plus has one problem to deal with, however. For the first time in its history the main Canal Plus channel, which specialises in movies and sport, had a significant shortfall between new subscriptions and cancellations in the first half of this year. The latter totalled 170,000 while there were 139,000 new subscriptions. In the same period last year there was a net growth of 36,000 subscribers.

Mr Ravilly blames the shortfall on the worsening economic climate in France.

He concedes that saturation point for Canal Plus in France may come at 4m to 4.4m subscribers. Canal Plus hopes the numbers will be boosted by the continuing introduction of a new receiver box and smart card system which is cutting the rate of piracy.

Where the new receiver has been introduced, there has been an average increase of 10 per cent in subscriptions – in Toulouse, however, the growth was 30 per cent, evidence of the scale of piracy in the area. In France the group estimates that there will be 3.74m individual Canal Plus subscribers by the end of this year.

The total Canal Plus universe, including services owned with partners in Belgium, Spain, Germany and Africa is expected to exceed 6m by the end of December. The forecast includes 950,000 subscribers in Spain and 900,000 in Germany. In addition, Canalsatellite in which Compagnie General des Eaux has a 30 per cent stake, is expected to have 200,000 subscribers.

The thematic channels offered by the Canalsatellite "bouquet" satellite channels, are designed for those who are unlikely to be able to get cable television. The choice ranges from film channels and the French version of Eurosport to the French music channel MCM to Canal J for children and Canal Jimmy for young adults. It is a strong base from which to take on a major future challenge.

**Raymond Snoddy**


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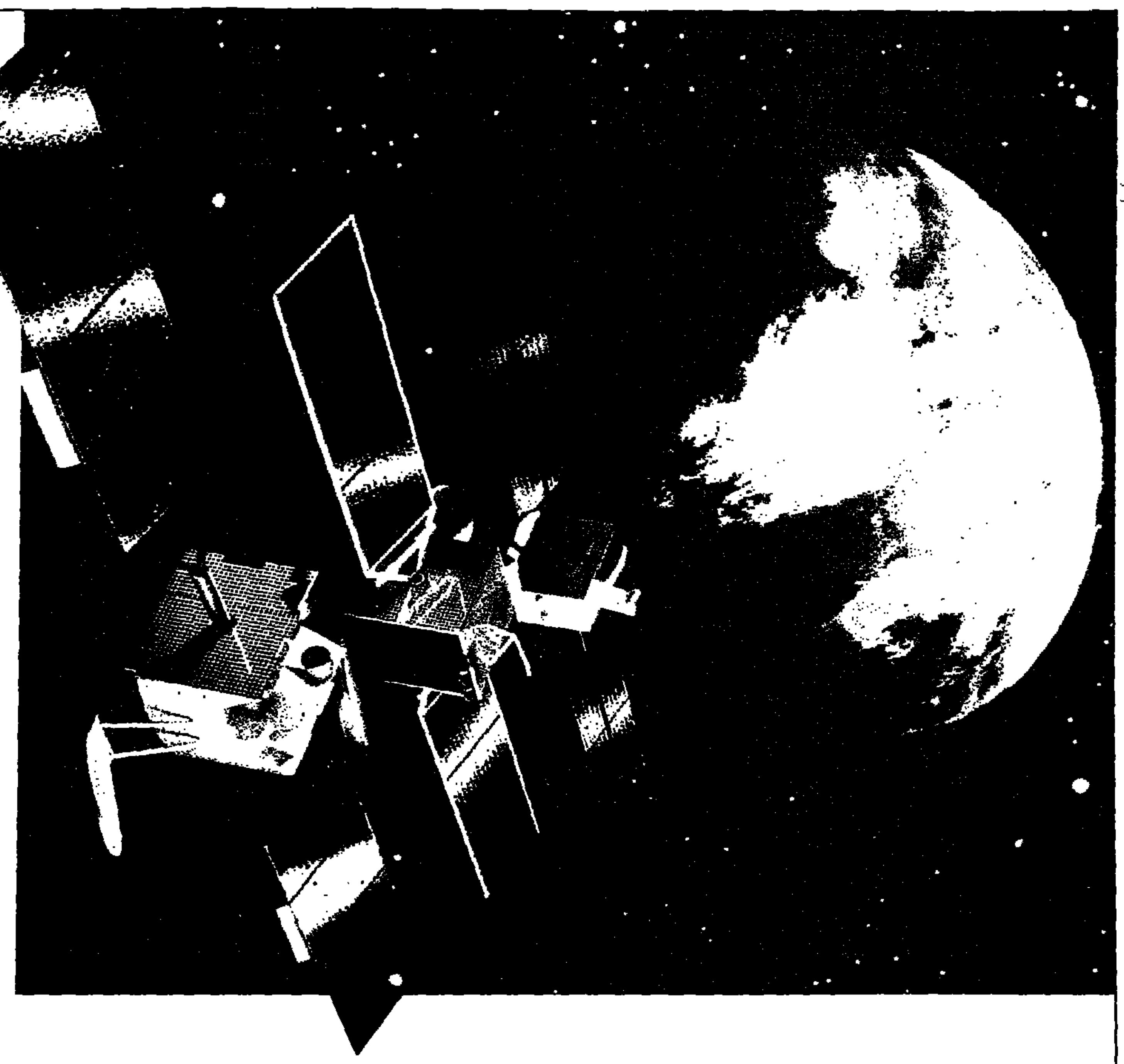

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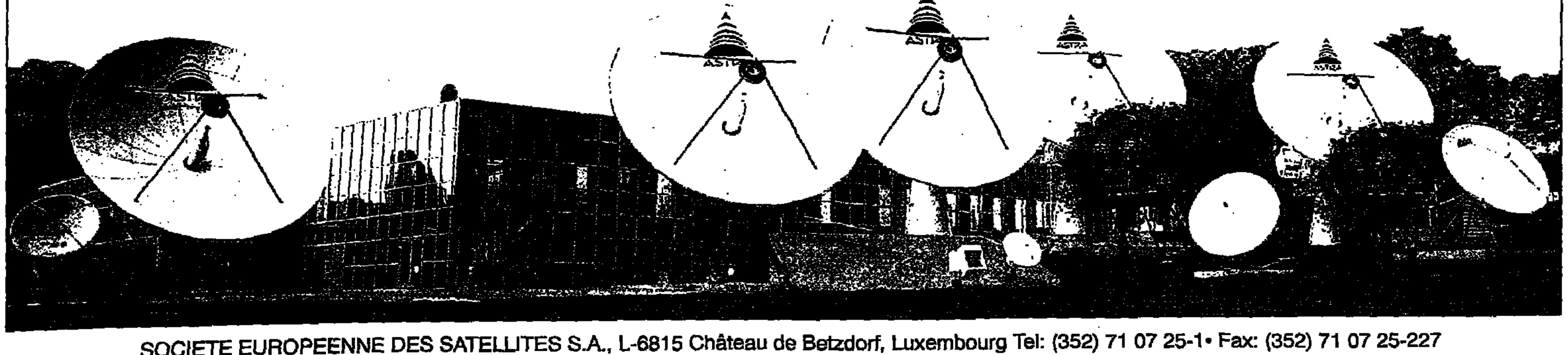

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■ CABLE TELEVISION

# The 1m watershed

Earlier this summer, Bell Cablemedia, one of the largest UK cable operators, pushed ahead with a listing on the Nasdaq market in the US despite difficult market conditions and at a time when others were pulling flotation plans to await better times. Bell had little choice but to go ahead as flotation was a requirement for creating the company that brings together Bell Canada, Cable and Wireless and Jones Intercable.

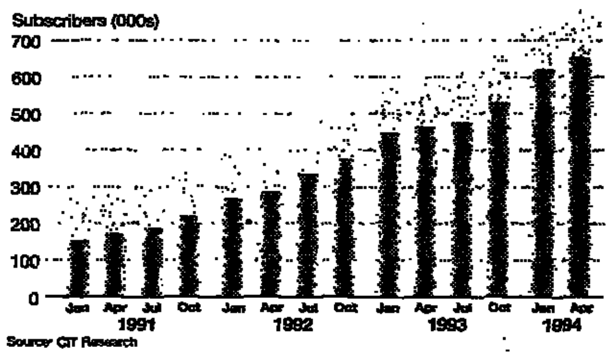
The combined Bell group, which now has 18 franchises covering more than 2m homes, managed to get its flotation and a substantial debt offering away and raised nearly $500m. "It is a significant step forward for the industry," says Mr Alan Bates, chief executive of Bell Cablemedia and chairman of the Cable Television Association, who promises to float the cable group on the London Stock Exchange, probably by the middle of next year.

Since the float Bell's shares have shot up, influenced partly by the decision by Oftel, the telecommunications regulatory body, in favour of telephone number portability. Until now, anyone planning to leave British Telecom to obtain a cable telephone had to get a new number. This made small businesses wary of switching to cable telephony because they did not want to lose well-known telephone numbers.

More cable flotations are clearly on the way and with them the creation of a market in UK cable shares. Comcast, another of the top 10 cable operators in the UK is also in the process of floating on the Nasdaq market. TeleWest, the joint venture between US West, the US telephone company and TCI of Denver, the largest American cable operator, is dusting down its postponed London flotation plans.

The flurry of financial activity symbolises the growing confidence of the cable industry which has already spent £1.5bn in building cable networks past some 3m homes out of the projected £10bn total cost to cable three-quarters of Britain. Indeed, comparatively small franchises that five years might have been difficult to give away are attracting competitive bids of around £1m a year.

**Growth of cable TV in the UK**




Source: CIT Research

The actual average penetration rates for cable television – the ratio between those who actually subscribe and those whose homes or businesses are actually passed by the cable network and therefore could subscribe – remain at a stubbornly low 21.3 per cent. But that is increasingly being seen as only part of the story.

The investment community is waking up to the fact that cable is an industry producing three streams of revenue from a single network – television subscriptions, residential telephone revenues and business telecommunications revenues. This is possible because the UK is the only major country so far to license cable companies to compete in the telecommunications market.

Salomon Brothers, the US stockbrokers, recently published a study called UK Cable/Telephone: Land of Opportunity. "Cable television in the UK presents a tremendous opportunity in one of the most rapidly developing sectors of industry today – communications. US and global cable and telephone operators have partnered to build a state-of-the-art fibre optic communications infrastructure in the UK," Salomons concluded.

The number of subscribers has already reached 750,000 and Mr Bates expects it to exceed 1m by the turn of the year on the back of building out of the networks, even if actual penetration averages do not rise.

Cable operators think they have done reasonably well if they get 20 per cent of the population to subscribe initially to television only services. Add telephony and the percentage goes up to 26 per cent or higher. Telephony also greatly reduces the "churn" factor – the proportion of customers who disconnect every year. Already more than 500,000 cable telephone lines have been installed and free or discounted local calls are proving to be a valuable marketing tool.

The 1m subscriber figure, if it is reached soon, is an important watershed for cable. It means, for instance , that cable services will be worth marketing nationally for the first time and a campaign is being planned for early next year.

More thought is also being given to the quality and range of programmes carried on cable networks. There are already cable exclusive channels such as Wire TV, the Parliamentary Channel and Performance, the arts channel. Mostly, however, cable acts as retailer for the satellite broadcasters such as British Sky Broadcasting.

"There is no doubt that cable operators must start having an alternative source of product other than Rupert Murdoch (whose News International owns half of BSkyB)," Mr Bates says.

The process has already begun with the purchase of rights to cricket and World Cup rugby in 1996. There is also the planned launch later this year of Channel One, the 24-hour news service being created for the London cable market by Associated Newspapers.

The Mirror Group has also announced it plans to launch a national cable channel early next year with local partners. Midland Independent Newspapers, publishers of the Birmingham Post and Mail, has signed up to provide a special news and magazine service for the Birmingham area.

The industry, however, is divided on exactly how the programming initiative should go. Mr Vernon Achber, chief executive of Telecential, with franchises covering more than 600,000 homes, believes: "We must fill the vacuums and those are in regional programmes – sport and news. I can't see any point in general entertainment going on a national basis."

The majority view seems to be that a more substantial programme initiative is needed to help take cable subscriptions upwards and a permanent company to buy programme rights on behalf of the industry and help establish new channels could be set up next year. Mr Bates, the CTA chairman, would like to see between three to five cable exclusive channels being created over the next couple of years.

Perhaps the greatest reason for growing confidence in the UK cable industry at the moment flows from the realisation that many important technological and industrial arguments are going its way. As other people merely talk about the electronic superhighways of the future, the cable industry says it has hundreds of gangs of workmen out every day digging up the streets and actually installing them.

"We are installing two and a half times more optical fibre cable than BT," says Mr Achber, who points out that the capacity of optical fibre is virtually limitless. It is capable of carrying millions of telephone calls or hundreds of television channels. Cable operators are installing fibre optic cable to within 200 yards from the consumer.

If the market for new services such as interactive television and video on demand takes off, then one day it may be economic to go the last 200 yards. Some specialists believe it might not be necessary and that the growing sophistication of the electronics being built into cable switching devices in the local neighbourhood will be able to supply all the new services anyway.

**Raymond Snoddy**

Raymond Snoddy on the latest campaigns

# Europe satellite wars may get even more intense

In the next few months, Europe's satellite television wars are likely to become even more intense with the launch of two large new satellites by the main operators – Societe Européenne des Satellites and Eutelsat, the European satellite organisation.

SES, the Luxembourg-based company that runs the Astra satellite system, hopes to launch its fourth dedicated television satellite at the end of this month. It will be a huge satellite, capable of transmitting 16 channels of television using existing analogue technology plus two transponders set aside for experimenting with digital television. There will also be 40 transponders, designed to provide back-up if any of Astra's existing three satellites were to fail. If all goes well, the satellites should be operational by next January.

Next month, Eutelsat plans to launch its 16-channel television satellite called Hot Bird 1, to intensify the challenge to Astra. The satellite will be able to broadcast television channels throughout Europe as well as in most of North Africa and the Middle East.

Eutelsat's strategy is to create 13 degrees east as the "hot" position to be. Hot Bird 1 will join an existing Eutelsat satellite and there are plans to launch Hot Bird 2 in 1996. The users of Hot Bird 1 will include MTV, NBC Superchannel TV 5 and the newly launched European Business News.

The two satellite systems have developed in a rather complementary way. So far, Astra has been the dominant supplier of subscription channels such as movie channels in Europe. Eutelsat has tended to concentrate more on carrying advertising backed channels such as Euronews or NBC Superchannel, delivering channels to cable networks and community systems.

Astra channels were available by mid-year in a total of 53.1m European homes, 36m of them through cable networks and 16.7m through individual dishes and communal aerial systems.

Eutelsat services, as of April, were available in 38.3m cable homes, 2.2m homes served by community aerials and 2.8m homes with their own dishes.

Even SES directors concede that the competition between the two systems will become more intense as satellite channel operators consider launching digital television services.

The great advantage of digital, as opposed to analogue television, is that once a television picture is turned into digital a large number of channels can be squeezed into the capacity formerly occupied by one. The broadcaster can choose to have a smaller number of extra channels and instead broadcast in a widescreen format or provide a high definition picture.

> The great advantage of digital is that a large number of channels can be squeezed into a much smaller capacity

National Transcommunications, the privatised transmission and research division of the old Independent Broadcasting Authority, has recently been demonstrating its digital compression system, which squeezes eight television channels into a single transponder.

Star TV may launch the first 150-channel systems in Asia and Europe before the end of next year.

On its new Hot Bird 1 Eutelsat offers broadcasters the opportunity simultaneously to transmit a channel in both analogue and digital form at no extra cost.

Eutelsat says that tests of the new system earlier this year demonstrated that the analogue channel could still be received by 80cm dishes while the simultaneous digital channel provided pictures that exceeded normal broadcast quality.

Astra is planning to devote both its fifth and sixth satellites entirely to digital television if the market demand is there.

Much will depend on decisions taken by Mr Rupert Murdoch's News Corporation and his ally, Mr Leo Kirch, the German media entrepreneur.

The two would like to have eight channels, it is believed, on the new analogue Astra 1 (d) satellite. The aim would be to launch "near video-on demand" – giving over a number of channels to a selection of recent hit movies. Showing times are then staggered, so that the viewer is never far away from the start of the movie of his choice.

In return for a large number of channels on the new analogue satellite, the company is implicitly seeking a commitment to lease capacity on the new digital satellites.

If digital television is to be launched soon in Europe, it will require close co-operation between the manufacturers of the special receivers needed, the satellite operators and the satellite broadcasters – particularly the owners of movie and sports channels.

"We want to nurse them through into digital and they want us to nurse them through to digital," was how one of those involved describes the negotiations.

Particularly for News Corporation, the decision to launch digital television across Europe – and with it pay-per-view services – could involve the investment of hundreds of millions of pounds.

Astra has always described itself as technology-neutral and will dedicate its fourth and fifth satellites wholly to digital services only if that is what the market wants.

Recent internal feuds at SES, and a failed attempt to remove Dr Pierre Meyrat, the Astra director-general, have clouded the issues.

It is not yet clear just how rapid the move to digital television will be but it is certain – as long as the new Astra and Eutelsat satellites are successfully launched – that the television choices available to European viewers will continue to increase.

■ RADIO

# Digital sound is on the way

The impact of technical change now sweeping through television is also likely to change the world of radio through the arrival of Digital Audio Broadcasting. Already satellites and cable networks are delivering compact disc quality sound to subscribers but digital sound is now on the way for all radio listeners, whether they are on the move with portable transistors or driving at speed along a motorway.

Digital radio services, which of course need new receivers with more sophisticated microchips, will offer distortion-free and uninterrupted radio, with eventually the possibility of more efficient use of the radio spectrum and extra services.

The BBC will announce formally later this month that it is to begin network transmissions of DAB next September in the London area and move to cover 60 per cent of the UK population within three years, coverage that would include the main urban areas and the country's motorway system. Further expansion would depend on the success of DAB but could in the end reach more than 99 per cent of the population.

Though the BBC is believed to be the first broadcaster to commit itself to a full DAB service, experimental or pilot broadcasts already exist or are planned in Germany, Sweden, France, Denmark, the Netherlands, Switzerland and in Canada. As Mr Richard Norman, chairman of Brema, the UK consumer electronics trade organisation, put it recently: "Digital Audio Broadcasting is the first substantive new system proposal to be put forward for broadcast radio since the introduction of VHF/FM some 40 years ago."

> The BBC is reconciled to losing some audience share

Progress on DAB is the result of nearly 10 years of collaboration between European broadcasters and the European electronics industry under the Eureka programme. Work on developing the system is now complete and a specification has been submitted to the European Telecommunication Standards Institute.

The DAB system could have even greater significance for manufacturers and listeners and become the world radio standard for the 21st century. A group of UK companies is already at work on developing a low-cost design for a DAB receiver and the special VLSI (very large scale integration) chips for the receiver should be available this autumn.

The BBC as a publicly funded broadcaster is taking on the responsibility of trying to circumvent the impasse that often stands in the way of the introduction of new broadcasting ventures – without a service there is no incentive for manufacturers to mass produce receivers and vice versa.

Lord Chalfont, chairman of the Radio Authority, the body that regulates commercial radio in the UK, conceded recently that it would be the BBC rather than the commercial radio sector that would have to drive DAB forward initially. "The world-at-large should not expect a rush into DAB broadcasting. It is more realistic to envisage a rolling commitment, with one or two independent broadcasters perhaps coming in at or near the leading edge and others joining them later as they see advantage in doing so," he said.

The growing momentum behind DAB in the UK comes at a time of increasing interest in radio generally, with a large number of new commercial stations coming on air. Last month alone, five regional commercial stations were launched, plus a Country and Western station for London. All the signs are that the commercial sector, which now commands 47.4 per cent of total listening in competition with the established networks of the BBC, should win a majority share by the end of this year or early 1995.

Because of the number of new stations coming on air, the BBC is reconciled to losing some audience share although BBC Radio still attracts some 29m people every week. Indeed, the BBC deliberately repositioned Radio 1 to give it a more public service emphasis, losing millions of listeners as a result. Radio 5 Live, the combined news and sports network launched this year by the BBC is so far regularly reaching 4.5m adults. The commercial radio opportunities in the British market are also attracting foreign investors.

Emmis Broadcasting of Indianapolis and CanWest, the Canadian-owned international broadcaster, are both investors in UK Talk Radio, the third national commercial station due to launch in February. NRJ, the French broadcaster which has taken its "energy concept" to more than 10 cities in Europe, has joined MTV to apply for one of four new London licences on offer. The company wants to run a "hot adult contemporary" station in London. Its continental rivals for the licence include CLT of Luxembourg, which also has extensive broadcasting interests across Europe.

Apart from the new licences in a significant market where commercial radio has been relatively underdeveloped in the past, they are attracted by the sudden growth of radio in the UK. Commercial radio was once known as "the 2 per cent medium" because it traditionally took only about 2 per cent of total advertising revenue. In the past 18 months this has grown to 4 per cent and some analysts think radio could hit 5 per cent by the end of the year.

Commercial radio's gross advertising revenue for the second quarter of this year was £52.6m – representing year-on-year growth of 23.1 per cent. Such growth might even help to boost the spread of Digital Audio Broadcasting.

**Raymond Snoddy**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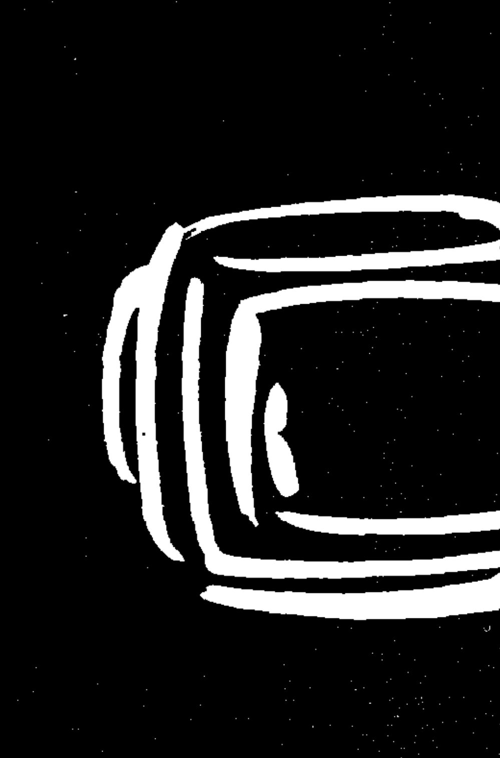

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Interview with Sam Chisholm, chief executive

# BSkyB fights back

Mr Sam Chisholm, the tough chief executive of British Sky Broadcasting, is in a typically pugnacious mood. "ITV is going to run out of sand to stick their heads in," he says. Mr Chisholm is referring to the fact that the ITV companies finance a regular independent survey of the satellite market by GfK, the market research group, whose findings in recent months have suggested that dish sales have slowed down and that BSkyB is running out of steam. "We will let the results speak for themselves. We will just keep on and on," he insists.

There is no easy way to bridge the gap between the BSkyB numbers and those produced by GfK. The research group says, for instance that dish sales slumped to 20,000 in May despite an offer in April and May in which Sky Television services were on free trial. BSkyB says more than 100,000 dishes were supplied under the scheme and only around 10 per cent returned.

"There is no evidence that it (demand for dishes) is slackening off," says Mr Chisholm, who adds that total sales this year should be around 1m, roughly the same as last year and the year before that. In August BSkyB, a consortium in which Mr Rupert Murdoch's News Corporation has a 50 per cent stake and Pearson, owner of the Financial Times, has 17.5 per cent, did give hard numbers to City analysts when the satellite company announced results for the year to June 1994.

Group profits before interest rose to £185.8m and profit going to shareholders to help pay off the more than £1.5bn invested rose from £54.1m in 1993 to £176.8m. Charts based on the company's own figures show that weekly dish sales for the year to June did not drop below 11,000 and reached a pre-Christmas peak of more than 36,000 and that the number of subscribers grew in a relatively straight line from about 250,000 in December 1989 to 3.45m by the end of June 1994.

In its latest financial year BSkyB said its subscriber base increased by 1.1m – a rise of 46 per cent, the numbers of subscribers taking both movie channels and the sports channel growing by 750,000. Out of the total of 3.45m subscribers, 74 per cent were watching on individual dishes, 18 per cent were connected to modern cable networks and a further 8 per cent came from communal aerials and other "bulk subscriptions".

BSkyB is Europe's leading satellite subscription television service – though the terrestrial subscription service of Canal Plus is still ahead in numbers with 3.7m subscribers. In the past two years, however, BSkyB has been living dangerously. In September 1993 the company began to scramble an extended package of basic channels so that only those who paid £6.99 a month subscription were able to watch. At the time a raft of non-BSky-B channels such as MTV, Bravo, UK Living, UK Gold and The Discovery Channel came into the Sky Multi-Channels package. The total cost of subscribing to them all was £19.99 a month.

**Though BSkyB is Europe's leading satellite subscription television service, the terrestrial subscription service of Canal Plus is still ahead in numbers**

Last month BSkyB announced a £3 a month price rise which went equally on every form of subscription package. So though it now costs £22.99 a month to get all the BSkyB channels, the £3 increase has also been imposed on Sky Multi-Channels, a rise of 43 per cent. To sweeten the pill, the price rise has been accompanied in the past few days by the launch of five new services: VH-1, the music television channel aimed at 25-49 year olds; a second Sky Sports channel, only at the weekends; four hours a day of soaps; a travel channel produced for Sky by Thames Television; and a daytime slot for The Learning Channel from cable which will share a transponder with Discovery, the factual and documentary channel that will take over at 4pm.

Of the additions, only VH-1, a channel aimed at the UK market and like MTV owned by Viacom of the US, is a full 24-hour channel. If BSkyB can hold onto its existing subscribers at the new rates and add to the total, then the 1994-95 profits could be substantially higher than this year's.

It is unlikely that the extra cost of the modest increase in programme services will be anything like the increased subscription revenues. "There is absolutely no objection to the price rise," claims Mr Chisholm who adds that another seven channels could be on the way once the fourth Astra satellite is launched at the end of this month.

The new channels are likely to be a mixture of pay-per-view films plus a number of other non-movie channels. Inevitably, they will further fragment the audience in cable and satellite homes, underlining the fact that satellite television is a business built not on ratings but on the number of subscribers paying for additional choice.

More than 82 per cent of BSkyB's revenues at the moment come from subscriptions, though advertising revenues rose from £43.8m in 1992 to £78.1m in 1994. Despite a doubling of channel choice available, the overall share of viewing to the new media has not changed greatly in cable and satellite homes.

According to official Barb ratings the share of viewing of the new channels has varied between 28 per cent and a high of 36 per cent when exclusive Test Match cricket from the West Indies cricket was being shown. And apart from Sky 1, viewing to the new channels tends to be dominated by movies, sport, cartoons and the library channel UK Gold, with some of the specialised, thematic channels attracting average weekly viewing figures of less than 15 minutes.

**Raymond Snoddy**

Louise Kehoe on the potential of Internet

# Publishers tap into global network

The Internet, a global "network of computer networks" linking an estimated 30m computer users, and the forerunner to the much ballyhooed "information highway" is creating both opportunities and challenges for traditional publishers.

Unlike commercial "on line" information services such as Compuserve, Prodigy and America On Line, that charge users either according to the amount of time spent accessing the service or the number of documents read, the Internet is largely unmonitored.

Any "information" – be it the text of a novel, the price of stocks or articles from a newspaper or magazine – that is accessible via the Internet is essentially in the public domain, free to anyone who can figure out how to find it in the vast unmapped labyrinth of "Cyberspace".

Despite the lack of copyright enforcement on the Internet, which potentially could undermine the value of their traditional paper-based products, leading publishing houses are showing increasing interest in the Internet as a new publishing medium.

The potential of this huge new market – one new Internet user is said to be "logging on" every two minutes – is too much to ignore, despite the drawbacks. The new wave of Internet users is dominated by corporate users and by well-heeled consumers, making them a particularly attractive target for many publishers.

Several business models have emerged as publishers attempt to tap into this potentially important new market. These range from offering "teasers" to on-line readers in the hopes of persuading them to subscribe to magazines and newsletters, to experiments with electronic distribution of book manuscripts.

One of the biggest attractions of the Internet is that it is a very low cost publishing channel. Anybody with a personal computer, a modem and an account with one of the hundreds of services that offer Internet access can in theory "publish" whatever they wish for the cost of a telephone call.

Beyond lowering the cost of "vanity publishing", however, the Internet represents an opportunity to add value to the purchase of reference works and textbooks. Addison-Wesley, for example, is making one of its textbooks "Parallel Programming for Scientists and Engineers", available on the Internet. The publisher assumes that students will still want to buy bound copies of the book, but will appreciate the opportunity to search the text on-line.

In another Internet publishing experiment, Encyclopedia Britannica is going on-line to offer electronic distribution of its materials to universities and some public libraries. Using software that limits access, the publisher plans to charge libraries according to a formula reflecting the size of their subscriber base.

The electronic version of the encyclopedia, called Britannica Online, is being tested at the University of California at San Diego. The on-line version includes "hypertext" links that guide users to related topics as they search through the text; a feature that cannot be matched by the traditional book version.

For magazines and newsletters aimed at computer buffs, the Internet can be a valuable distribution channel. The magazine Wired, which has built a reputation for publishing articles about the Internet, provides Internet users with copies of back issues and the opportunity to subscribe on-line via commercial information services such as America On Line.

The Electronic Newsstand, a Washington, DC-based company founded last year, offers publishers an opportunity to market magazines, books, newsletters and business information via the Internet for a $1000 set-up fee and a share of subscription payments.

Most of the publishers that use this service provide a few articles from each issue to lure subscribers. In its first 10 months on the Internet, the Electronic Newsstand attracted over 3m accesses from over 75,000 different sites, the company says.

The Electronic Newsstand is in the forefront of a growing trend to create "billboards on the information highway": electronic spaces on the Internet in which companies can display their wares.

Another example of this trend is MecklerWeb, a new venture of Meckler Media, the US publishing group. Launched earlier this year, MecklerWeb aims to "provide companies with an inexpensive and rapid means of establishing an Internet presence," the company says.

One of the most successful commercial Internet publishing projects is the Global Network Navigator, an Internet "magazine" founded last October by O'Reilly & Associates, a US book publisher that specialises in computer topics.

By last month GNN had attracted over 40,000 registered users and twice as many unregistered "visitors" by offering articles about where to find information resources on the Internet.

GNN is garnering attention from other businesses by establishing "meta-centres" including a travel centre and a personal finance information centre that feature a mix of editorial and promotional material.

Yet publishers must tread carefully as they move to exploit the potential of this self-regulated global village. Founded in the late 1960s as a government-funded programme to link researchers at US universities and government laboratories electronically, the Internet was closed to all business activity until about two years ago and many Internet users remain resistant to the intrusions of commercial enterprise.

Other drawbacks include persistent security problems as Internet "crackers" break through the barriers that companies attempt to build to limit access to commercially valuable information and the sometimes unreliable performance of the Internet.

For now, the Internet is being used most effectively to publish information about products and services that can be delivered through traditional channels. As metering and billing technologies evolve it could, however, become a significant medium for publishing and selling all kinds of "information".

In the meantime, the Internet can provide companies with a low cost opportunity to reach markets that are beyond their geographic reach as well as valuable experience in the emerging market for electronic publishing.

Colin Donald reports on the Polish media market

# Testing ground gets busy

Large forces are again massing to divide up Poland. This time, however, the opposing sides are some of the biggest media companies in Europe.

Poland is itself a considerable prize, already being the third-largest market, after Germany and the UK, with at least 1.5m dish television homes. Another million are connected to cable. It is also seen as a testing ground for how well other central and eastern European countries will respond to new media offerings. The passage this year of copyright legislation, which will help distributors and programmers fight the endemic piracy, is another attraction.

The M-Net/Richemont pay-television operator FilmNet and the distributor MultiChoice Poland, a joint venture between Mr Rupert Murdoch's News Datacom and Nethold, are launching services there this month as a prelude to entering neighbouring states.

MultiChoice, which has the rights to distribute News Datacom's VideoCrypt II decoder system, is offering Polish homes a package comprising the Children's Channel, the Adult Channel, Country Music Television, the home shopping service QVC, and FilmNet, a premium film channel with a small amount of sports and music.

However, Poland's National Radio and Television Council intends to regulate foreign operators beaming into Poland by seeking legislation this autumn to let it license decoder distribution. It wants foreign channels to adhere to at least some of its media regulations, such as carrying a certain amount of Polish programming or respecting the 33 per cent limit on foreign ownership of channels. The council could stop the channels being carried on cable.

The package will, any way, face stiff competition. The unlicensed terrestrial broadcaster Polonia 1 launched an advertising-supported, unencrypted channel last month on Eutelsat. The channel's 12 regional stations (six of which were closed by the authorities in August) had built a substantial following, with its soaps and films attracting a 25 per cent viewing share.

Another possible satellite competitor could be a Compagnie Luxembourgeoise de Telediffusion RTL-7 channel. However, plans for the unencrypted entertainment service ran into difficulties in July after potential partners Reuters and Polish investors rejected the CLT's business plan. Licences have been granted this year for the first national terrestrial commercial station and three regional commercial networks.

Almost every leading media operator made a bid for the national licence. It went to the all-Polish Polsat, which started out as a Eutelsat channel. Mr Murdoch had hoped to take a stake in the company, but so far it remains completely Polish. But viewers have not been impressed and it typically gains a lower viewing share than Polonia 1.

Some of the disappointed bidders joined the second round of licensing. Canal Plus won licences to run a pay channel in the big cities and plans to offer the film-based

Continued on next page

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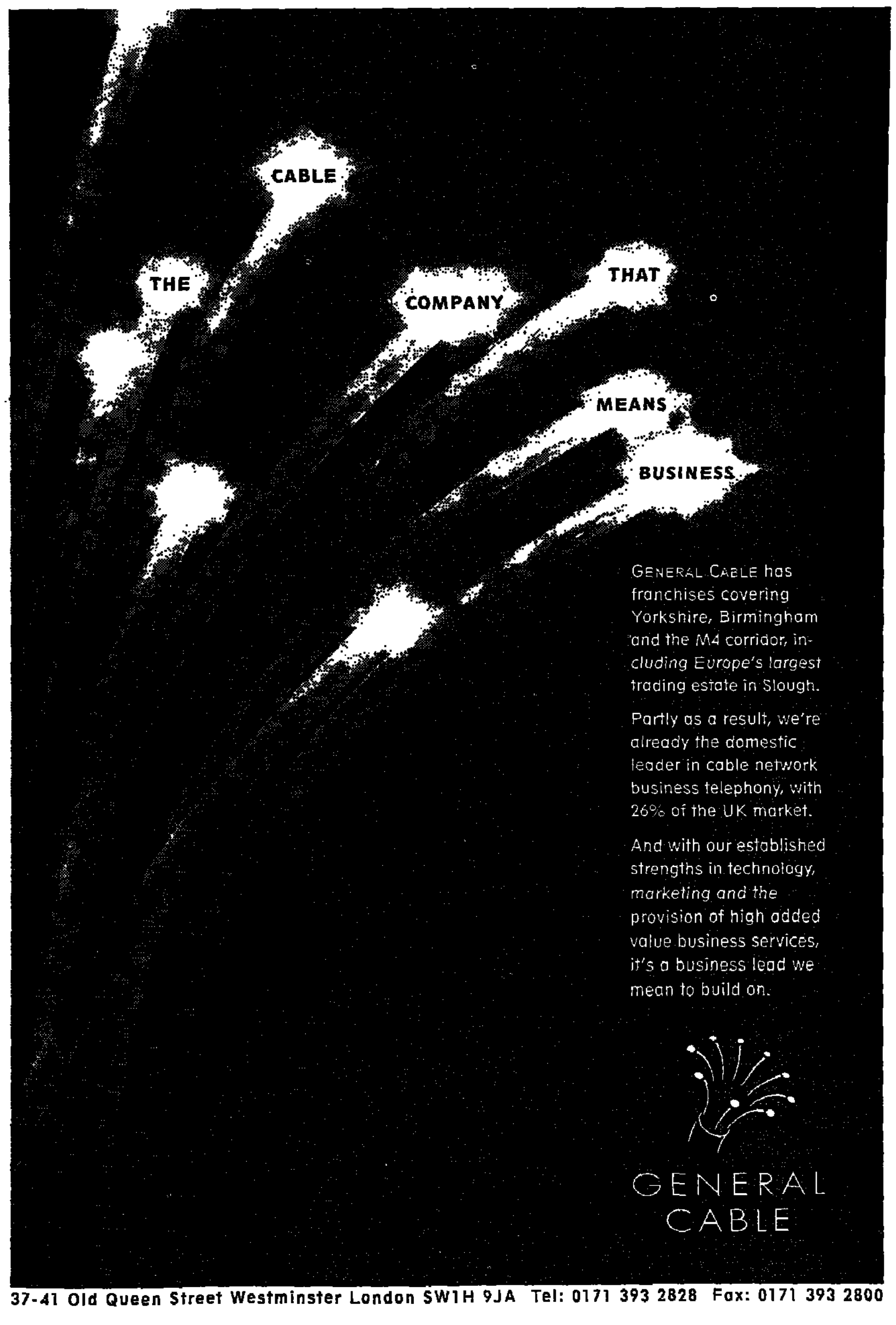


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An owner's total share of the television audience will be limited, writes **Callam Murray**

# Germans act on media control

After months of bitter internecine feuding, Germany's 15 regional media authorities last week recommended a radical set of reforms to regulations which are supposed to guard against the building up of ownership concentrations in the commercial television sector.

At present, restrictions are placed on the size of shareholdings and the number of channels in which an owner has an interest. Different rules apply, depending on whether a channel has been awarded a "full service" or a "thematic" licence.

This complex system is to be replaced by one in which the total share of the television audience gained by the channels in which an owner has an interest is limited to 25 per cent. The basis of media ownership regulation, according to one television executive, will be switched to one of "how many people watch the channels, not how many channels you own".

In the UK the lack of such a regulatory framework has led to the development of a satellite broadcasting market which is largely controlled by BSkyB. Germany's post-war federal structure was designed to ensure that the media can never again fall into the hands of any single political or commercial organisation.

Yet existing regulations have not prevented privately-owned commercial television from being dominated by three big media groups, each with stakes in a number of channels: Bertelsmann, Compagnie Luxembourgeoise de Telediffusion and the Kirch Group.

Germany's two public service broadcasters, ARD and ZDF, are in decline through overmanning, political sensitivities over the licence fee and fierce restrictions on the amount of advertising time available to them. The country has developed the largest cable network in Europe, with 14m homes already connected. In addition, about 7m homes have satellite receivers.

The consequence has been a scramble in recent years to exploit the enormous advertising potential of the united Germany by starting new commercial channels. This has been encouraged by Germany's federal regulatory system, which devolves the licensing of channels to the regional media authorities.

Lacking a nationally agreed licensing policy, and fearful of being accused of driving away investment and jobs from their own region, the authorities have mostly been prepared to grant a broadcasting licence to anyone that applies for one.

**Once the channel is licensed by one authority, the others must accept it, even if they disagree**

And if one authority will not grant a licence – for instance because it believes the shareholding in a proposed channel leads to a concentration of media ownership – another authority can usually be found that will. Once the channel is licensed, the other authorities must accept it, even if they disagree with the award.

But even the new simplified formula for limiting media ownership concentration will not solve all of the authorities' regulatory problems. For instance, the Kirch Group is engaged in a long-running dispute with most of the media authorities over the ownership of the Pro 7 film channel, which is 47.5 per cent owned by Mr Thomas Kirch, son of Mr Leo Kirch, the group president. Most authorities believe the channel should be seen as belonging to the Kirch media empire.

Under current regulations, this would mean that Kirch's stake in the channel would have to be pruned to below 25 per cent, since an owner may hold more than 25 per cent of just one full-service channel – and this quota has already been achieved through its 43 per cent stake in Sat1. But the son argues that his interest in Pro 7 is independent of the Kirch Group, and should not be counted as part of its holdings.

This dispute has been running for over a year, despite the efforts of the Direktorenkonferenz der Landesmedienanstalten, a regular meeting of the directors of the 15 authorities, which has held several inconclusive votes in an attempt to resolve it.

The publication of the authorities' new proposals is likely to intensify the dispute. If the Kirch Group were to lose its case, adding Pro 7 to its channel portfolio would take its audience share above the limit – the only media group to be so affected.

In a section clearly aimed at Pro 7, the authorities attempt to address the question of ownership identity by recommending that the media authorities should be given powers equivalent to the German monopolies and mergers commission, the Kartellamt, to investigate the real influences at work within a channel. It warns that the question of "relationships" should be treated with particular caution.

The proposed changes will contribute to a detailed parliamentary review of the state broadcasting treaty. If accepted, they could become law by January 1996.

Bertelsmann, Kirch and CLT are already organising their defences. Bertelsmann has issued a statement claiming that it is unfair that a channel in which it has an interest should count equally towards the calculation of its overall audience share, regardless of the size of the stake.

But the authorities have three big advantages on their side. For once, they are said to be unanimous; they have support from politicians of both the left and the right; and they are likely to be backed up by the EU, which is also considering legislation based on the so-called "audience share model".

With this muscle behind them, the authorities could, at last, be about to curb the power of Germany's media giants.

*The writer is senior reporter on New Media Markets, an FT newsletter*

# Testing in Poland

**Continued from previous page**

service available in France. It will cost $60m to $100m to launch and will charge subscribers $12 a month. The NTP Plus consortium, backed by Central European Media Enterprises, won licences for north and central Poland, while Wisla, backed by Kinnevik, won licences for the south.

The FilmNet and Multi-Choice channels will be launched in November in the Czech Republic, Slovakia, Hungary, Slovenia and possibly Croatia. Russia, Romania, Bulgaria and the Ukraine may follow. MultiChoice is negotiating to add MTV, VH-1, Nickelodeon and the Family Channel to its package.

In the Czech Republic, it will face substantial western competitors. The US-backed Central European Media Enterprises holds a licence for a satellite channel. United International Holdings of the US, which is merging its European cable networks with those of the Dutch company Philips, plans to roll out a 16-channel microwave multipoint distribution system network in Prague, Brno and Tabor in the autumn as a prelude to laying a cable system.

It will also start three channels this autumn, a premium film channel and two basic tier services, one for children and the other combining general entertainment with documentaries. It may also launch a basic tier film channel, showing popular films from the 1960s to 1980s. The channels would be offered to other Czech cable operators and could also be distributed in Slovakia, where UIH has set up a joint venture with the Slovak National Cable Television Company to acquire multichannel television systems. So far, it has 44,000 subscribers.

UIH is in the process of expanding elsewhere in central Europe. It is pursuing franchises covering 1.4m of the 2.6m television homes in Bulgaria and plans to expand its stake in the Hungarian Kabelkom cable operator, which has 212,800 subscribers. It has set up a joint venture with the Romanian state-owned electrical installation company Imsat, which has cable TV projects covering 44,000 homes and is seeking licences for a further 100,000.

For the region as a whole, an encouraging development is that the European Bank of Reconstruction and Development, which took a £2.6m 14.8 per cent stake in UIH's Prague Kabel Net company, is looking at cable proposals in Estonia, Slovakia and Poland. The EBRD can take a maximum one-third stake in a company.

*The writer is on the staff of New Media Markets, an FT newsletter*

Multi-media offers hope of a Japanese electronics revival

# Salvation sought from US

**Michiyo Nakamoto** looks at plans for Japan's information superhighway

To the bureaucrats in the deep, dark halls of Kasumigaseki, where Japan's ministries are concentrated, the idea of a national information infrastructure, first proposed by US Vice-President Al Gore, must have seemed inspired.

For the past few years, as the country's leading corporations suffered falling profits, business leaders and bureaucrats have been hard-pressed to come up with a solution to reviving the slumping economy.

The consumer electronics and car industries, which until recently had been significant engines of growth, are deemed unlikely to assume that role again, if and when the recession ends. The recovery in these industries, where demand has matured, is expected to be gradual and mild.

As the yen's sharp appreciation has forced consumer electronics companies to move more production to lower-cost regions and encouraged car makers to localise manufacturing, their impact in spurring domestic growth is likely to be subdued.

An information superhighway, as proposed by Mr Gore, is increasingly seen as providing the best answer to boosting economic growth. To the delight of the bureaucrats, it has all the ingredients of a grand national project: potentially enormous social benefits for a wide public, regulatory implications, capacity to provide large numbers of jobs, huge investment spending and an opportunity for industrial policy-making.

The plan, according to the Ministry of Posts and Telecommunications, is to have fibre-optic cable laid throughout the country by the year 2010, for Japan's very own information superhighway. This will probably (more likely than not) be the job of NTT, the telecommunications company that is 66 per cent owned by the government.

The MPT forecasts that by that time the market for multimedia – the convergence of consumer electronics, computing and telecommunications which will spur demand for using the advanced information infrastructure – will be worth Y123 trillion and employ 2.4m people. For its part, the Ministry of International Trade and Industry calculates that in six years multimedia will grow into a market worth up to Y70 trillion, or 5.9 per cent of total GNP.

"The source of economic value is shifting from manufacturing activity to intellectual activity," Miti said in a report on its advanced information technology programme published in May. But since Japan has been relatively slow to make use of advances in information technology, much more needs to be done before the country can reap the benefits of the new information age.

Indeed, compared with the US, Japan appears still to live in the stone age of information technology. Bringing the country into line with the US will be a formidable task.

Take computers and cable TV, for example, which are expected to play a significant role in the spread of multimedia in the US. While PC penetration is 42 per cent in the US, it is only about 10 per cent in Japan, says Mr David Keller, an analyst at IDC, the information technology consultancy. And while 66 per cent of PCs in the US are hooked up to local area networks, the figure drops to just 17 per cent in Japan, according to Miti.

The situation is similar for cable TV with only 4.5 per cent of Japanese homes connected to cable networks, compared with over 60 per cent in the US.

Without greater penetration of such equipment and networks, and a greater familiarity among potential users with such advanced communications and broadcasting services, the expensive network of fibre-optic cable which the MPT wants to see built could be wasted.

"The MPT has announced ambitious plans for investment in multimedia, but it has not considered sufficiently whether the equipment will actually be bought by consumers," worries Mr Tsuzo Murase, executive vice president of Matsushita.

Mr Murase is concerned that Japanese consumers have not had sufficient experience with data networks, for example, to make use of all the fancy new services that would become available through multimedia. "Access to networks has to be made much easier," he notes.

Similar doubts exist with respect to the new kinds of services that multimedia is expected to generate.

"No matter how much technology advances, what matters is whether there is a use for that technology," says Mr Akira Kuwahara, vice president of Toshiba. Like many other executives in the Japanese electronics industry, Mr Kuwahara, lacks confidence in Japan's ability to come up with creative uses for multimedia.

Although Japanese companies have the skills to make the advanced hardware that multimedia will require, the country lacks an environment that can nurture the creative talent and entrepreneurial spirit needed to spawn the software and services that will make multimedia practical and stimulate demand for its use.

"Toshiba is staffed by people who wear blue business suits and graduated from the science, technology and law departments of universities. If you go to the Time Warner offices in California, people wear black suits with long hair tied back in a ponytail and have studied things we've never heard of," he exclaims. "The vitality in the US is extraordinary."

Japan lacks a dynamic software industry, such as Hollywood; the mobility of talent that is found in the US, which is crucial to generating new ideas for new businesses, is lacking in Japan. "That is Japan's handicap," says Mr Kuwahara.

At the same time, deregulation of the information and telecommunications sectors will be crucial to creating an environment in which such new services can thrive.

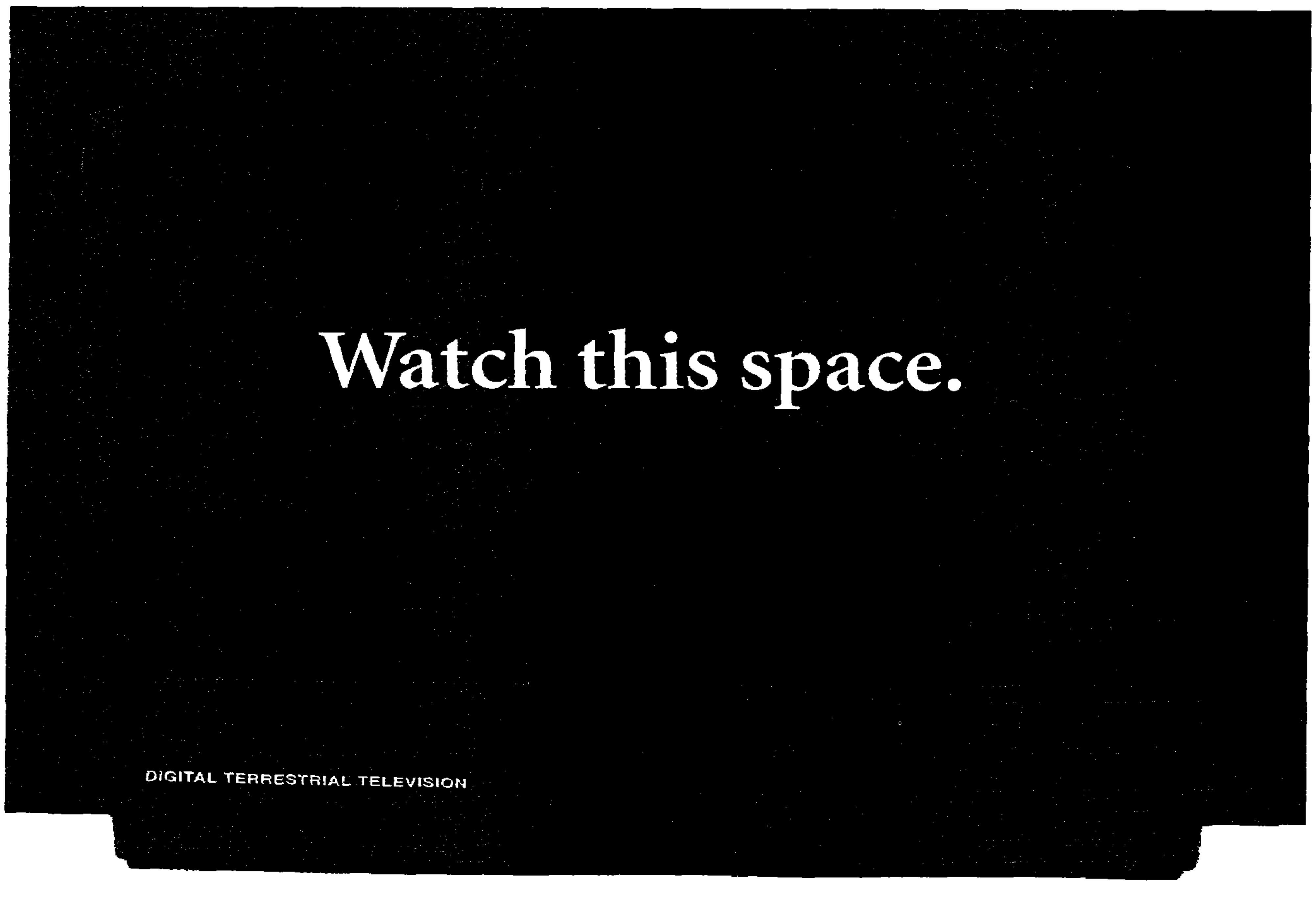
The bureaucrats also recognise the many obstacles that Japan faces in becoming an advanced information society. "In Japan, the problem is that compared with the hardware, high quality contents and applications have not been supplied sufficiently," Miti states. "In order to develop multimedia software, it is important to nurture talented people who can combine creative expression with information processing skills."

The bureaucrats' solution is to set up pilot experiments in multimedia, encourage its use in public institutions such as town halls, hospitals and schools, and gradually build a base for the spread of new multimedia services.

Businesses have a more short-term answer. To overcome the disadvantages Japan faces, "we need to tie up with those who have what we don't have," Toshiba's Mr Kuwahara says. Toshiba already has a stake in Time Warner, which gives it an entry into the emerging US multimedia market.

Other electronics companies as well as NTT, the telecommunications company, have been busy in forging links with US software companies from start-ups such as 3DO to well-established giants such as Microsoft.

The pace may be much slower in Japan than in the US, but as such moves gather pace, MPT says, "the year 1994 can be considered the first of the Multimedia Era".


The face of television is changing. New developments in transmission technology make this an exciting and challenging time.

NTL is a world leader in video compression and international satellite services. Our multi-channel TV system - VCS4000 - is built to new pan-European standards and will be at the heart of the global digital superhighway.

We're also pioneering the technology for digital TV services from land-based transmitters, and we've already conducted extensive tests. NTL is committed to delivering new channels to viewers through the early implementation of digital terrestrial television.

As a major player in every aspect of the business we can meet all broadcast requirements whether for satellite, cable or terrestrial operations. And we have the skills, dedication and financial commitment to maintain and develop our industry leadership into the future.

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The future has never looked better.